

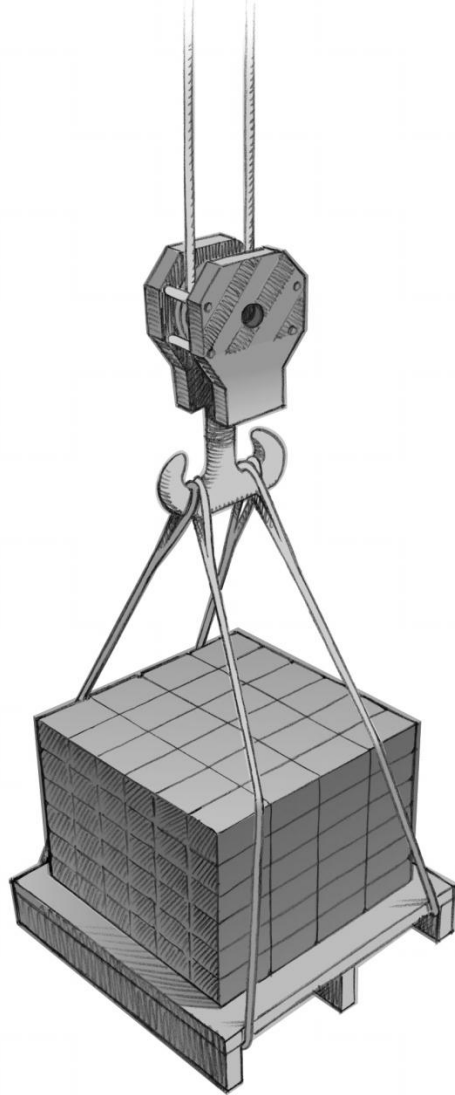
# Pune: The leading real estate destination

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2012-13







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# Foreword

Pune is a special city. It is a seat of learning, a hub of business and industry, it has been endowed with rich culture and heritage and a fine climate, most of the year. Not surprisingly, its population has grown exponentially over the years, creating on its way, some major challenges for its future.

Pune is also a very vibrant real estate market, matched by some of the finest real estate developers in the country. The face of Pune is gradually getting transformed with world class architecture and buildings. In many ways, it has not been able to display its true value and potential. The archaic land laws, conversion processes, building regulations and woefully inadequate infrastructure has not only compelled it to perform at a suboptimal level, but has, in the process, undermined its image. The real estate sector in the country, to my mind, has been a victim of lack of good governance and transparency.

The conference being held by CII, in knowledge partnership with Grant Thornton, therefore assumes importance. I understand that this is first such conference being held by CII in Pune. It is important because Pune has the capacity and lineage to provide the intellectual leadership in transforming the real estate landscape in the country. This is also an opportune time because of the powerful undercurrents being witnessed in the country that is demanding greater transparency and better governance in all walks of life. Time seems to be ripe to bring about a silent revolution in the sector and which better place than Pune to germinate the idea?

During the conference, I hope, issues of building laws that force developers and land owners to pay bribes would be discussed. The intention need not end up accusing the system, as has become fashionable. The conference could provide a constructive framework that would help transform the system from being rent seeking to that of a proactive regulator that would ensure economic and environmentally sustainable development of the sector and the geographies it serves. The legal framework prepared by the Government of Maharashtra in its new legislation can be a good starting point. We can collectively see that the good regulation, that it appears to be, does not end up creating another class of rent seekers.

I wish the conference all success and look forward to being an active partner in its endeavour to make tomorrow happen!



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**Sanjay Ubale**

Chairman, CII Western Region-  
Infrastructure Sub Committee &  
Managing Director & CEO, Tata  
Realty and Infrastructure Limited

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# Foreword

The world economy continues to be faced with a challenging environment. Tough monetary measures introduced in Europe to manage the deficits and public debt has seen the region slip back into recession. The United States is staring at its self-created 'fiscal cliff' of tax rises and spending cuts. While Japan also appears to be sliding back into recession due to low domestic demand coupled with a weak external environment for exports.

Amidst this scenario, our most recent International Business Report (IBR) results indicate that businesses in emerging markets are far more confident than their peers in mature markets about the outlook for both their economies and their own operations over the next 12 months. The survey also noted that there are more cash rich companies in emerging markets looking to invest internationally than ever before.

The health of real estate sector is interconnected with the global and national economy, and our research indicates that though there is a noticeable slowdown in emerging markets like India, it is an opportunity to expose the hidden bottlenecks and address them collectively and more effectively. The foremost issue that business leaders cite inhibiting investments is red tape - too much legislation and regulation which adversely impacts businesses.

The real estate sector in India is apparently dealing with too many regulations and authorities for taking clearances and permits, and there is certainly a room to rationalise government processes and procedures. The constant evolution of the organised segment of the real estate sector in India, both in terms of size and growth, in the last two decades has also drawn attention towards the need for streamlining the regulatory environment. Given its substantial contribution to the economy, a slowdown in the real estate sector can directly impact livelihood of millions of people and not just developers, and thus, all positive developments in this sector also link back to the overall health of our human capital and the entire nation at large. While self-regulation will be the key for better governance and sustainability, the sector is likely to be introduced with a number of new and revised regulations by both Union and State governments in the forthcoming months.

This report analyses some of the most significant developments impacting the sector along with in-depth research based insights focused on the real estate space in Pune. Hope that you would find this report enriching.



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**Munesh Khanna**

Partner

Grant Thornton Advisory Private  
Limited

# Introducing Pune

# Introducing Pune, the city

Pune is the seventh largest metropolis in India, the second largest in the state of Maharashtra after Mumbai and the largest city in the Western Ghats. Pune city is the administrative capital of Pune district.

Today, Pune is known for its educational facilities and relative prosperity. Pune is the cultural capital of Maharashtra. It has a growing industrial hinterland, with information technology and automotive companies setting up factories in the district. Pune is a thriving industrial centre sheltering manufacturing units of some of the most prestigious industrial houses of the world.

The dynamic culture and job opportunities attract migrants and students from all over India and abroad. The growth in the city is peripheral and the driving forces for this growth are mainly the development of its IT industry as well as the economic boom in the automobile sector, which forms a major portion of the industries in and around Pune.

The peripheral development has resulted in growth of the residential real estate space as well as the infrastructure and other facilities requisite for sustainable urbanisation. Pune is also ranked as a Gamma- Global City.

Pune is popularly nicknamed as 'Queen of Deccan', 'Pensioners Paradise', 'Cultural Capital of Maharashtra', 'Cyber City' etc. owing to its location, pleasant climate, historical importance, vibrant culture and presence of IT-ITeS centres.

## Fast facts

**Area (square kilometres):** 15,643

**Population:** 9,426,959

**Population growth rate:** 30.34% compared to population as per 2001

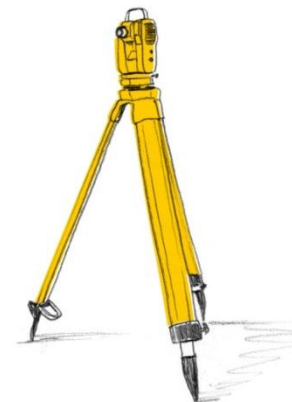
**Density (per square kilometres):** 603

**Sex ratio (females per 1000 males):** 910

**Literacy rate:** 87.19%

**Per capita income- Pune city** (Source: Times of India): Rs 1.27 lakh (2010-11)

**Source:** Census 2011



# Introducing Pune, the city

## Growth drivers

There are several growth drivers that have made Pune the seventh largest industrial hub of the country. Presence of various industries and fast-developing infrastructure have made it a favourable destination for commercial activities. Further, it has significant opportunities to emerge as a key player in specific sectors if provided focused strategic planning. The major growth drivers that have enabled Pune to emerge as a leading real estate destination are:

## Information technology hub

The IT, BPO and KPO industries have emerged as few of the most important growth drivers for Pune's economy. Many IT Parks have sprung up in the city to keep pace with the growth in the tech-enabled industry and to encourage new IT companies to set up their base in the city. Pune's skyline is increasingly getting decorated with several software giants both national as well as multinational.

## Major software companies

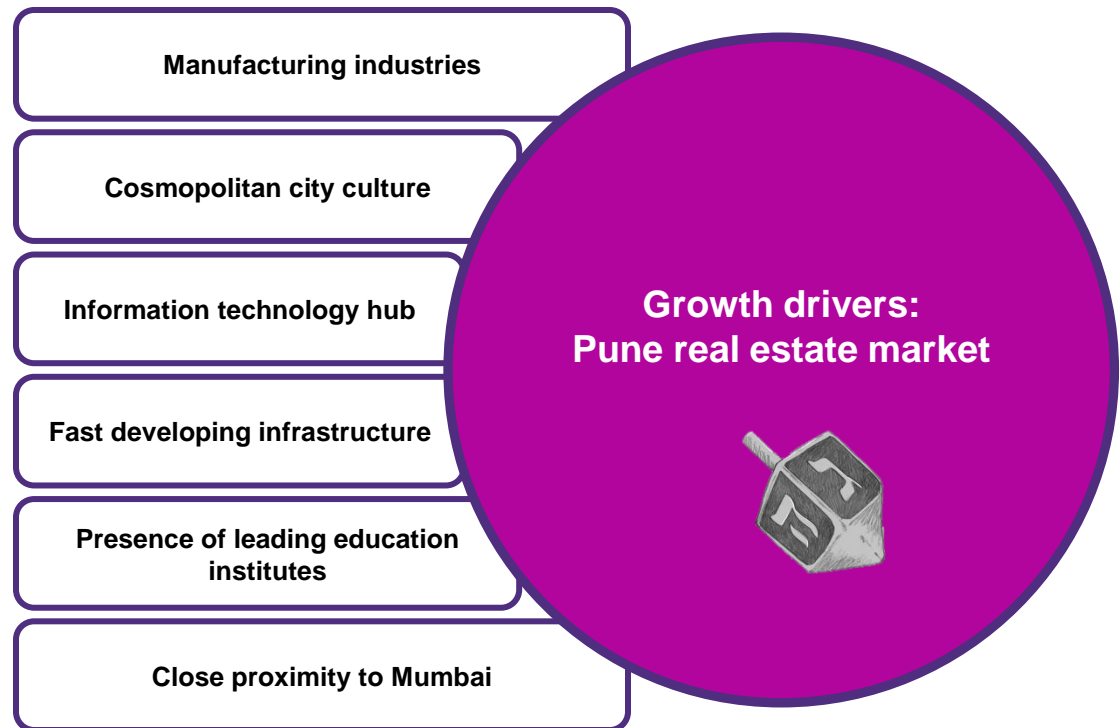
Accenture, Infosys, Capgemini, Persistent Systems, Geometric Ltd., 3dPLM Software Solutions Ltd., Symphony Services, Wipro, TCS, Cognizant, Symantec, Amdocs, Tech Mahindra, Syntel, Fujitsu, L&T Infotech, Zensar, Atos, Cybage, IBM Global, Sybase, Allscripts and Crest Premedia Solutions Ltd.

## Presence of leading education institutes

Pune is a leading educational hub with 150+ colleges and institutes that offer courses in a variety of subjects. It also houses several universities including the University of Pune which is one of the oldest universities in Maharashtra. Besides, Pune also has more than 260 affiliated educational institutes and colleges from all parts of Maharashtra.

## Major educational institutes

University of Pune, Deccan Education Society, Symbiosis International University, ILS Law College, Armed Forces Medical College (AFMC) and Byramjee Jeejeebhoy Medical College, Bharti Vidyapeeth, Tilak Maharashtra University, IGNOU, etc.





# Introducing Pune, the city

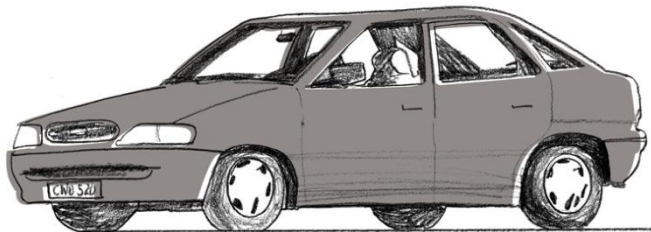
## Auto and auto components

The influx of auto and auto components manufacturing industries has played a major role in the emergence of Pune to a mini metro bustling with industrial activity. On the auto and auto components manufacturing front, its emergence as a renowned centre for the auto industry was facilitated with the establishment of manufacturing units of Tata Motors and Bajaj Auto in the 1950s and 1960s. The influx of key players in the automobile sector provided the requisite fillip to the proliferation of a host of auto ancillaries companies.

Today, Pune boasts a number of auto components companies ranging from micro, small and medium scale units to the largest forgings company in the world - Bharat Forge. The arrival of the global players such as Mercedes-Benz and Fiat have further helped the city in fostering its stance on the Indian, as well as the global auto industry chart.

## Leading auto and auto components companies in Pune

Tata Motors, Kinetic Engineering, Mahindra & Mahindra, Bharat Forge, Mercedes-Benz, Volkswagen, Piaggio, Skoda, General Motors, Fiat, Bosch Chassis, John Deere, etc.



## Manufacturing units

Pune's skyline speaks a lot about its identity as an emerging industrial metro and manufacturing hub. In the past few years, Pune has emerged as one of the major business centres in Maharashtra. Today, it serves as a base for various large and small units operating in sectors such as engineering, IT, pharmaceuticals, machine tools, chemicals, electrical and electronics, instrumentation and control, iron and steel, castings and forgings, and food processing.

With the development of large industrial areas within a radius of 50 kilometres, having Pune as the nucleus, the region has reinforced its identity as an important destination in India's industrial story.

## Leading manufacturing units in Pune

Cummins India Ltd, Thermax Ltd, Honeywell Automation India, Whirlpool India Ltd, Lupin Labs, Coca Cola, LG, Sandvik Asia, Greaves India, Frito Lay, Alfa Laval, Eaton Technologies, Suzlon, among others.

## Cosmopolitan city culture

Pune is said to be the cultural capital of Maharashtra. Pune's culture reflects a blend of traditions with modernism. It encompasses both the traditional Maharashtrian lifestyle that is prevalent in the heart of the city, as well as a modern, progressive outlook resulting from its being a hub for education and industrial activity in the country. People from multiple religions and speaking different regional languages reside here. The city is known for hosting cultural activities in music, spirituality, theatre, sports, and literature, thus attracting people from different religions and cultures. Due to a large student population, Pune also hosts many youth festivals.

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# Introducing Pune, the city

## Fast developing infrastructure

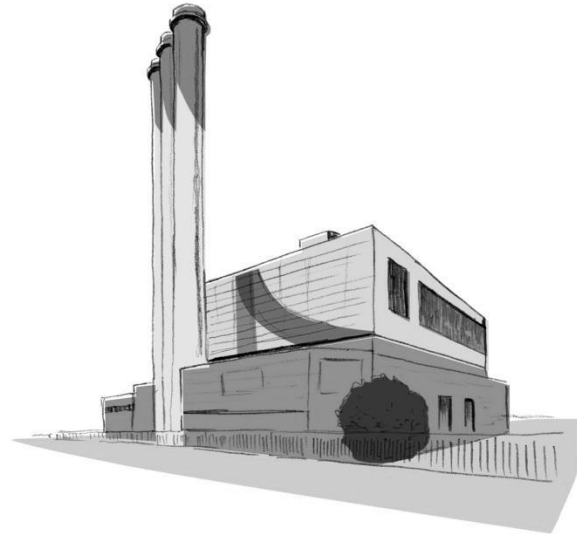
Pune's infrastructure is developing with a phenomenal pace with a strong support from the State. Pune is one of the most advanced, industrialised, and popular cities in the country and construction of residential and commercial complexes, schools, and college campuses is taking place rapidly on a wide and fast scale in the city.

The Expressway that connects Pune with Mumbai provides greater connectivity between the two cities. The city is also well-connected with the rest of the country by a strong network of roads, railways and airways. The proposed metro project will further enhance the interconnectivity of the city as well its connectivity with the surrounding metropolitan areas. The project is expected to be commissioned by 2013.

## Proximity to Mumbai

With the construction of the six lane Mumbai-Pune Expressway, Pune is now less than three hours drive from Mumbai. The six-lane, 95-kilometres Mumbai-Pune Expressway has certainly been a 'concrete' milestone in reducing the distance between the two cities.

Certain restrictions imposed by the state government on industrial expansions in Mumbai have also been one of the key drivers for rapid industrialisation here. Pune's proximity to Mumbai, India's commercial centre having a seaport as well as an international airport, makes it a favourable destination for commercial activities and has led to several multinational companies setting up their base in the area. Page 40-42 of the report provides a detailed snapshot of the recent major infrastructure projects in Pune.



# Pune real estate: *An overview*

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# Pune real estate: An overview

**Whilst the metropolitan city of Mumbai has witnessed massive real estate development in the past decade, emergence of Pune is becoming increasingly integral to the real estate sector in Maharashtra and the country at large. Driven by positive demographic and income trends; auto and education industry; and fast-developing infrastructure, Pune claims the status of one of the leading real estate destinations in India.**

Pune has witnessed tremendous growth and development in real estate in the recent years. The city continues to witness good traction this year as well as this market continues to be relatively more affordable and new launches are helping to keep the momentum.

Real estate in Pune has grown more rapidly and to higher levels than in most other Indian cities. Property prices have multiplied in almost all parts of the city and the suburbs and neighbouring areas have been getting absorbed at a considerable pace – although the market is not fully immune to a slowdown in the global and national economic environment.

There are various reasons for Pune's sudden rise in real estate fortunes. Pune is home to a large number of educational and training institutions that cover every aspect of academics, finding such a diverse treasure of knowledge and learning in one city is quite unusual. Pune also boasts of other attractions to tourists. For instance, it offers a full-fledged horse racing infrastructure which is a major attraction among people from other cities.

However, the major driving force behind Pune's success in real estate market is the Information Technology edge. Pune and its outlying localities such as Hinjewadi, Kharadi, Hadapsar, Aundh and Wakad are very much under the spotlight since the first multinational giants began expressing serious interest in them.

Pune offered big IT/ITeS companies the required space and infrastructure they needed. The big IT giants were looking for huge space for building their offices as well as residential complexes for their employees; Pune sufficed their requirements and offered them a high level of comfort, security and civic amenities.

Close proximity to the financial capital – Mumbai and rapidly moving infrastructure has made Pune one of the most sought-after destinations in the country today. A large number of migrants from different parts of the country have led to a realty boom in the city. With respect to its potential, a slew of other developers from other cities of the country are also making their presence felt and looking forward to reap the benefits of the inherent demand that Pune offers.

At present, the real estate and construction sectors are playing a crucial role in the overall development of Pune's core infrastructure. Pune real estate industry's growth is primarily linked to developments in the retail, hospitality, Special Economic Zones (SEZs) and IT Industry.

The Pune real estate market has been driven by genuine demand resulting in increased development of both commercial as well as residential space. The real estate sector in Pune has seen a lot of deviations, initially dominated by commercial players to residential groups now. The market was earlier dominated by commercial real estate projects but with the increasing number of immigrants and working population the demand for residential housing projects has increased tremendously.

# Pune real estate: An overview

With the increasing number of employment opportunities in the city, the demand for homes is also rising steadily, and continues to climb steadily. The developers who were earlier focussing only on the commercial projects are now moving towards building residential projects in Pune. This shift in trend has occurred due to the continuously increasing number of Special Economic Zones (SEZ) in Pune along with improving infrastructure and good connectivity to Mumbai.

Pune real estate market has expanded by 16.6% in period between June 2011 and June 2012, as per a research report from Gera Developers. During this period, prices went up by 14.08% while the preceding months registered an average growth rate of 10.66%. Micro-markets such as Kolhewadi and Bolhai clocked price appreciation in excess of 50%, and as many as six micro-markets had a price gain of more than 25%.

## Major locations within Pune

The real estate space in Pune is classified into five distinct zones - Central Pune, North Pune, South Pune, East Pune and West Pune.

**Central Pune:** Bhosale Nagar, Deccan, Model Colony, Prabhat Road, and Shivaji Nagar

**North Pune:** Chinchwad, Akurdi, Pradhikaran, Talegaon, Chakan, and Ravet

**South Pune:** Ambegaon, Katraj, Kondhwa, Parvati, Salisbury Park, Sinhadgad Road, Mohammadwadi, NIBM, and Warje

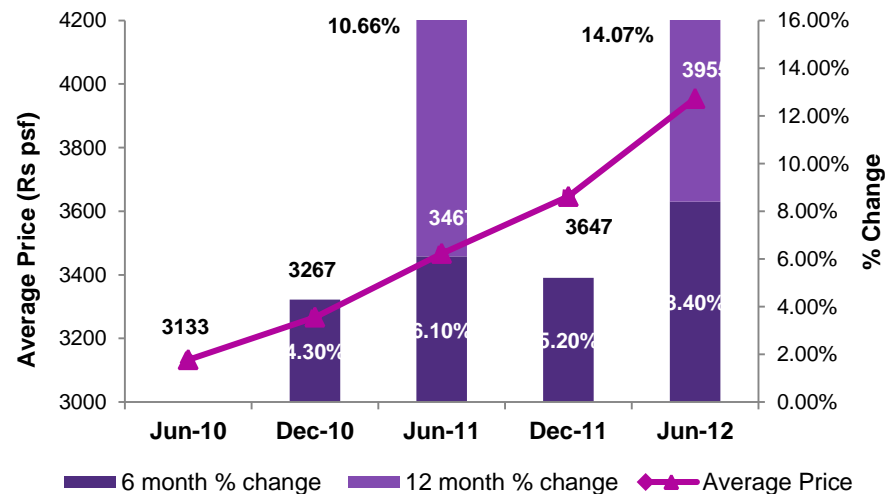
**East Pune:** Boat Club, Hadapsar, Kalyani Nagar, Kharadi, Koregaon Park, Wagholi, and Viman Nagar

**West Pune:** Aundh, Balewadi, Baner, Bavdhan, Hinjewadi, Kothrud, Pashan, Pimple- Saudagar, and Wakad.

These trends are undoubtedly encouraging and demonstrate the sheer potential of Pune as an emerging real estate destination of India. A recent report from SBI Capital Securities further corroborate that property sales in Pune is upbeat – largely due to focus on affordable housing.

In consideration of this momentum, it is the right time for the real estate developers in Pune to consolidate their position, and lay a stronger and deeper foundation to sustain vibrant growth in the long term.

Overall supply situation in Pune



Source: Gera Developers

# Residential real estate development in Pune

**Residential real estate industry in Pune has witnessed stupendous growth in the past few years owing to the following reasons:**

- **increase in business opportunities**
- **increase in number of immigrants**
- **ample job opportunities in service sectors**
- **growing income levels**
- **increased affordability**

With the increase in city's population driven by the IT boom resulting in a large migrant population shifting base to the city, there has been a considerable residential activity in the region in the last few years. IT zones in the city are witnessing fast development with a string of new and contemporary residential complexes on the anvil. These comprise of Kharadi, Hinjewadi, Nagar road, Vimannagar, Kalyannagar, Hadaspur, Aundh, Baner, Bavdhan, and Pimpri Chinchwad.

The demand for residential units in Pune is driven primarily by the end-user segment. Even during the economic slowdown, the decline in capital values in Pune was on the lower side as compared to most of the other major cities. Between 2009 and 2011, capital value in Pune posted CAGR of 14%, next only to Mumbai, which grew by 19% Compound Annual Growth Rate (CAGR) during the same period.

The fact that during the brief recovery period of 2012, Pune did not see the kind of run-up in capital values that was evident in Mumbai actually helped affordability levels and demand conditions to remain relatively better. As far as increase in capital values is concerned, Pune is expected to grow at about 8% year-on-year during 2012 to 2013 according to CRISIL.

Real estate developers see considerable growth opportunities in the residential segment as the annual requirement of houses in Pune is estimated to remain in the range of 45,000-55,000 per year over the next couple of years.

It's a win-win situation for buyers also as real estate prices are expected to remain firm with low vacancy levels and steady absorption trends.

Buyers have the widest choice in Pune because of the large number of projects popping up all over Hinjewadi, Wakad, Pimple Nilakh, Pimple Saudagar, Aundh and Balewadi. The growth in demand for residential units in Pune can be attributed to rapidly growing city population (both migratory & local), coupled with improvement in economic environment with stimulate growth of both IT and manufacturing sectors in this city.

The launch of new projects is in fact helping to keep real estate prices competitive and thus affordable. The residential market is moving briskly and both high-end and economy segments within the residential sector are doing well.



# Residential real estate development in Pune

As Pune boasts a good number of residential projects in various parts of city, some of the places developed into townships for instance Magarpatta City, Blue-ridge, Nanded city, Megapolis and Amanora Park have become destinations in themselves. Townships -a larger development with built-in amenities and facilities- offering a better living standard are luring a large number of residential buyers from all around.

Going forward, a strong underlying demand would continue to aid an improvement in absorption levels in Pune. The Pune residential market is divided into five major markets namely Central, North, West, South and East Pune. All these zones have varied demands for residential real estate.

## North Pune

**Major locations:** Chinchwad, Akurdi, Pradhikaran, Talegaon, Chakan, and Ravet

North Pune is witnessing a tremendous amount of residential development activity. The area is coming up with many residential projects.

Earlier Pimpri Chinchwad was perceived mainly as an industrial hub, however in recent times, the scenario is fast changing with residential development picking up. The state government's approval for building 100 metre tall buildings within Pimpri Chinchwad further boosted the real estate scenario in this region.

Viman Nagar, since the last few years, has become one of the finest locations in Pune with many exclusive & luxurious residential projects, IT parks, hotels and educational institutes. It also has a good connectivity to the central area of Pune.

Kalptaru Properties, a major name in Mumbai real estate space has entered North Pune with their project 'Kalptaru estate'. Other major developers in this region include Nyati, Kolte Patil, Lunkad Realities and Goel Ganga among others.

## South Pune

**Major locations:** Ambegaon, Katraj, Kondhwa, Parvati, Salisbury Park, Sinhagad Road, Mohammadwadi, NIBM, and Warje

South Pune is coming up with many residential projects and has become a hot destination for property buyers in Pune. It has resulted in appreciation of property rates in this part of Pune.

Ambegaon has undergone a total makeover in the last few years and has acquired a new facet. Sinhagad is coming up with some good residential projects. Magarpatta has proposed a 700 acre township called Nanded City at Sinhagad Road. Mukund Nagar has also developed very fast in the last 3-4 years.

Kondhwa has evolved as an important residential area in recent past. While the area towards Katraj is developing as a low cost housing destination with budget factor weighing in more here; the area towards Wanowrie & NIBM is coming up as a preferred location for premium housing.



# Residential real estate development in Pune

## East Pune

**Major locations:** Boat Club, Hadapsar, Kalyani Nagar, Kharadi, Koregaon Park, Wagholi, and Viman Nagar

Koregaon Park has huge growth prospects and is home to some huge residential development projects. Kalyani nagar is said to be one of the most sought-after addresses in the city.

Projects like Magarpatta City have changed the face of the area. Good infrastructure and connectivity with other parts of the city is another plus point.

Hadapsar & Kharadi have come up as a preferred location for the IT/ITES sector. These locations serve not only as a hub for IT activities but also as preferred residential destinations promoting the 'walk to work' culture which is fast becoming popular.

East Pune consists of various townships as well such as Magarpatta City, Amanora Park Town among others which not only provides the buyer with homes with all built-in facilities but also include schools, college, hospital, restaurants and sports complexes within the township.

## West Pune

**Major locations:** Aundh, Balewadi, Baner, Bavdhan, Hinjewadi, Kothrud, Pashan, Pimple-Saudagar, and Wakad

## Major residential real estate projects in Pune

Project	Location	Area (sqft)	Developer	Price range (Rs/sq ft)
Megapolis-phase 1	Hinjewadi	2.7 million	Peagasus Properties Private Limited – a JV between Avinash Bhosale Industries Limited & Kumar Properties	3650
Sky Vie	Viman Nagar	0.24 million	Lunkad Realty Tata Blue Hills (East wing), Nagar Road, Pune - 411 006	4000
Malpani Greens	Wakad	0.4 million	Malpani Estates	4100
Nandan Prospera	Baner	0.32 million	Nandan Buildcon Pvt. Ltd.	3500
Pristine Prolife	Wakad	0.7 million	Pristine Properties	4500-5100
Rohan Mithila	Viman Nagar	1.25 million.	Rohan Builders	5250
Godrej Properties	Undri	0.5 million	Godrej Properties	4500
Wagholi Lush county	Wagholi	2.8 million	Kolte Patil Developers Ltd.	3600
Country woods	Kondhwa	2.6 million	Ackruti City Developers	4000
Amonora Park Town	Hadapsar	17.42 million	City Group	4500
Marvel Isola	off NIBM Road	0.52 million	Marvel Realtors & Developers Ltd.	5400

**Source:** Grant Thornton research



# Residential real estate development in Pune

Kothrud is considered to be one of the most preferred residential areas in Pune. The area has developed tremendously as compared to other parts of Pune. Attracted by this pace, developers are constructing complexes with the best of amenities. Being the hottest destination for various categories of the society, Kothrud has attracted many builders for carrying out major projects in the area. Top builders from the city are coming up with residential areas here.

Good infrastructure has resulted in prices showing a remarkable increase in real estate prices. Aundh is also among the most upmarket locations in Pune, characterised with good infrastructure and very popular among IT professional from Hinjewadi. Baner, on the other hand, has good proximity to Mumbai-Pune Expressway and is the next most preferred destination for IT professionals which has attracted many big builders. South Pune also consists of some townships such as Megapolis and Blue Ridge which provides best-in-class amenities.

## Central Pune

**Major locations:** Apte Road, Bhosle Nagar, Deccan, Model Colony, Prabhat Road, and Shivajinagar

Earlier, there were no major residential developments in this part of Pune. This area majorly consisted of commercial spaces.

But with the emergence of more and more commercial structures, it attracted residential developers which resulted in increased residential developments in the region.

Central Pune now consists of various residential projects and is one of the focus areas for residential activities.

## Major residential real estate projects in Pune

Project	Location	Area (sqft)	Developer	Price range (Rs/sq ft)
Sobha Carnation	NIBM	0.22 million	Sobha Developers	3555
Nanded City	Sinhagad Road	30.49 million		4250
KUL Ecoloch Phase 2	Hinjewadi	4.79 million	Kumar Builders	4400
Megapolis Splendour-Smart Homes III	Hinjewadi	6.53 million	Pegasus Group	3550
Kolte Patil Glitterati	Pimple Nilakh	0.35 million	Kolte Patil Developers Ltd.	5750
Kalp Homes	Kharadi	NA*	Shiv Builders	3700
Eastern ranges	Keshavnagar, Mundhwa, Koregaon	0.78 million	Phadnis Group	4450

**Source:** Grant Thornton research

\*Not available

# Commercial real estate development in Pune

Pune has established itself as a leading destination for commercial development, and gives strong competition to traditional business destinations such as Mumbai and Delhi. The Pune office sector has been dominated by the IT/ITeS sectors, which have been the driving force for commercial real estate growth in Pune.

Previously commercial properties in Pune were concentrated towards CBD (Central Business District) areas, however, with the emergence of more and more IT-ITeS, which had huge office space requirement, commercial development started moving towards city suburbs as well. It resulted in multifold development of city outskirts and suburbs in Pune. Tax sops on the profits of IT-ITeS companies also led to a stupendous development of IT Parks and SEZs.

Post the downturn in 2009, there was a renewed impetus on spatial expansion by the IT/ITeS occupiers, as well as those belonging to the new economy sectors such as Telecom, Pharmaceuticals, Biotech and Manufacturing which resulted in an increased demand for commercial spaces. Healthy pre-commitments and large scale transaction activity contributed to developers launching new projects in suburban locations.

The demand for office space picked up significant momentum in the year 2010 with much improved market conditions. A total of 3.23 million sq ft of office space got absorbed across the various asset classes with a clear shift in demand towards the SEZs.

Western corridor, Hinjewadi in particular, has witnessed improvement in its share of total absorption in Pune off late. With the current office demand in favour of SEZ schemes, Hinjewadi has been to attract SEZ occupiers primarily due to its huge share in completed and under construction SEZs at fairly competitive rentals.

On the other hand, Eastern corridor continues to withhold its market share in total absorption of office space in Pune. The areas that still remain predominant in terms of leasing activity comprise of Magarpatta, Kharadi, Yerwada and certain stretches of Nagar Road.

Apart from easy availability of good office spaces (both IT and SEZ) at competitive rentals, these areas are also well supported in terms of easy accessibility, multiple residential options, good connectivity to various parts of the city, rapidly upcoming retail developments and most importantly proximity to the airport, railway stations and the city centre amongst a host of other advantages that give this region a definite advantage over the other areas in the city.



# Commercial real estate development in Pune

## Operational SEZs in Pune

- Infosys Technologies Ltd., Rajiv Gandhi Infotech Park, Ph. II, Vill. Mann, Tal. Mulshi, Dist. Pune IT/ITES
- Serum Bio-pharma Park Pune, Maharashtra Pharmaceuticals & Biotechnology
- EON Kharadi Taluka Haveli, District Pune
- WIPRO, Pune Hinjewadi Pune
- DLF Akruti IT/ITES
- Dynasty Developers Pvt. Ltd. (Pune Embassy India Pvt. Ltd.) Pune
- The Manjri Stud Farm Private Ltd Pune IT/ITES
- Maharashtra Industrial Development Corporation Ltd. Pune
- Syntel International Pvt. Ltd. Pune
- Magarpatta Township Development and Construction Company Ltd. Pune, Maharashtra Electronics - Hardware and Software including information technology enabled
- Flagship Infrastructure Private Limited Village Hinjawadi, District Pune

## Major office real estate projects in Pune

Project	Location	Area (sqft)	Developer	Lease rate - Rs/sq ft	Saleable rate - Rs/sq ft
Bajaj House	Viman Nagar	0.15 million	Lunkad Realty and Panchshil realty	50	9,250
Platinum	Naylor Road	0.1 million	Somjee	60	8,666
Marvel Edge	Viman Nagar	1 million	Marvel	50	9,300
Teraspace IT park	Kharadi	1.1 million	Tera Developers	45	5,500
Eon SEZ	Kharadi	1 million	Panchshil	45	5,500
Marvel Feugo	Magarpatta	0.16 million	Marvel	40	5,020
Panchshil Tech Park	University Road	0.9 million	Panchshil	47	-
Magarpatta Tower	Hadapsar	0.27 million	Magar Builders	40	5,100
Eon SEZ	Kharadi	1.9 million	Panchshil Realty	45	5,550
Symphony Building	Range Hill	0.05 million	NA*	50	4,432
SSRI towers	Kharadi	0.15	DLPT Techno Infrastructure	45	5,500

Source: Grant Thornton research

\*Not available

# Commercial real estate development in Pune

## Retail real estate

Demand and absorption for retail real estate in the city generally remains stable. The organised retail mall market has witnessed an increase in absorption of retail space in the past few months due to scarcity of quality retail supply at high street locations such as MG Road, JM Road and Aundh Road. The affordable rental values also encouraged the increase in absorption.

The key developments that came on stream included Amanora Mall in Hadaspar, with a leasable area of around 1 million sq ft, Phoneix Market City (1 million sq ft) in Viman Nagar and Pacific Mall (5,00,000 sq ft) at Swargate. These malls witnessed entry of a large number of premium overseas brands such as Swarovski, Steve Madden or Timberland and Clarks opening their first stores in the city. Many national and international retail brands are itching to make an entry into the city as some big ticket properties are set to be opened this and the next year.

Factors such as increased job security and salary hikes in the corporate sector made retailers to perceive that spending power and willingness to spend among Pune's population has increased. As a result, a number of new malls are being launched or are in the pipeline, and a number of new domestic and international retail brands have forayed into the city.

Pune's steady growth trajectory in terms of qualified manpower responding to the increasing employment opportunities in the IT / ITeS and manufacturing sectors will even out the space-versus-demand equation.

## Major office real estate projects in Pune

Project	Location	Area (sqft)	Developer	Lease rate - Rs/sq ft	Saleable rate - Rs/sq ft
Technospace	Baner	0.2 million	Techno Developers	50	7,259
GAIA Apex	Viman Nagar	0.03 million	GAIA Developers	50	9,250
Inspira	Bhakti Chowk	0.07 million	Nivasa Corp	35	5,443
Suratwala Mark Plazzo	Hinjewadi	NA*	Suratwala Housing Pvt. Ltd.( Jatin Thakkar)	53	8,700
Zer01ne- IT park at Koregaon Park Plaza	Ghorpadi-Mundhwa	NA*	Kasturi Builders	40	5,004
Prabhavee Tech Park	Baner	0.09 million	Prabhavee Constructions	50	7,259
Pride Purple Square	Wakad	3.05 million	Pride Purple Group	40	5,157
Aditya Business Centre	M.G.Road Extn, Lullanagar	0.08 million	Addition Builders	50	7,055

Source: Grant Thornton research

\*Not available

# Commercial real estate development in Pune

The top five malls of the city include:

- Phoenix Market City, Viman Nagar
- Inorbit Mall, Viman Nagar
- SGS Kakde Mall, Camp Cantonment
- Amanora Town Centre, Hadapsar
- Jewel square, Koregaon Park



## Major retail real estate projects in Pune

Project	Location	Zone	Area (sqft)	Developer	Lease rate – Rs/sq ft	Saleable rate- Rs/sq ft
Centre Port	Ganesh Khind Road	Central	0.14 million	Kakade Group	90	NA*
Fun & Shop	Fatima nagar	Pune	0.21 million	Kumar Builders	75	10,630
Ishanya	Yerawada	Central	0.5 million	Shapoorji Pallonji & Company.	52	10,782
Jewel Square	Koregaon Park	Pune	0.12 million	Ravi Kadam, Milind Chaudhari, Khushed Vazir	130	30,518
Mariplex	Kalyaninagar	North	0.2 million	Manisha Constructions	140	17,900
Nucleus	Modelina Road	Pune	0.16 million	Kakade Group	115	10,000
SGS	Modelina Road	East Pune	0.2 million	Subhash Gulati Group	115	10,000
44sinew Hills	Kothrud	East Pune	1.6 million	Kumar Builders	90	11,224
Amanora	Hadapsar	Central	2 million	A joint venture between City Corporation Ltd. & Horizon Realty Fund	40	10,703

Source: Grant Thornton research

\*Not available

# Commercial real estate development in Pune

## Hospitality real estate

Pune's hospitality industry has enjoyed robust growth over the past few years buoyed by a benign economic and political environment. Pune's emergence as a business destination has benefited hotels in Pune. Rising incomes, higher weekend trips and Pune's location and surroundings have propelled growth in hospitality.

The hospitality sector has also directly and indirectly gained momentum from the IT boom in Pune. The standard of living has been improving with the increasing number of IT professionals, which indirectly boost other sectors such as hotels, organised retail and other consumption-driven sectors.

Hotel industry holds a huge potential to grow, as people are earning ample remuneration with attractive fringe benefits. Because of IT, restaurants are performing well.

## Major retail real estate projects in Pune

Project	Location	Zone	Area (sqft)	Developer	Lease rate – Rs/sq ft	Saleable rate- Rs/sq ft
Blue Ridge	Hinjewadi	Pune	0.2 million	Paranjape group	90	4,833
Kakade City	Kothrud	Central	0.6 million	Kakade Group	90	11,230
Omega properties	Wakad	Pune	0.15 million	Omega Promoters Pvt. Ltd	60	9,700
Soul Space	Kothrud	West Pune	0.2 million	Soul Space is subsidiary of B L Kashyap and Sons Limited	90	11,230
Xion Mall	Hinjewadi	East Pune	0.2 million	Paranjape Group	90	5,000
Dolphin Mall	Wanowrie	West Pune	0.2 million	Raviraj group	75	9,500
G Corp	Nagar Road	North Pune	0.35 million	G Corp Pune	110	12,500
In-Orbit	Nagar Road	North Pune	0.32 million	K Raheja Corp	140	13,000
Magarpatta	Hadapsar	East Pune	1.7 million	Associated Space Designers Pvt. Ltd & Magar Builders	60	10,750

Source: Grant Thornton research

# Commercial real estate development in Pune

Five star rated hotels in Pune include:

- Hyatt Regency Pune, Nagar Road Pune
- Marriott Courtyard, Bund Garden Road
- Le Meridien Hotel, Raja Bahadur Mill Road
- Taj Blue Diamond Hotel, Koregaon Park Road
- Holiday Inn, Hinjewadi
- The Pride Hotel, Shivaji Nagar
- Royal Orchid Golden Suites, M.G. Road
- Marriott Hotel and Convention Centre, Senapati Bapat Road

## Major retail real estate projects in Pune

Project	Location	Zone	Area (sqft)	Developer	Lease rate – Rs/sq ft	Saleable rate- Rs/sq ft
Westend (Under construction)	Aundh	West	0.36 million	Suma Shilp Limited	70	7,200
Runwal gold	Hadapsar	East	0.75 million	Amrut Runwal Group	40	10,000
Market City	Viman Nagar	North	0.75 million	Vamona Developers Pvt. Ltd	90	17,524

Source: Grant Thornton research

**"Pune is definitely an upcoming real estate destination and has shown its potential in the last couple of years, when looked at on a pan-India basis. However, there are significant challenges around such upcoming cities and if they are not managed at the initial phases of development, they become urban sprawls as visible in Mumbai and New Delhi. There has to be a coordinated effort from the Governments and the local municipalities, alongside the developers, to ensure that the development of the real estate is done in a planned manner.**

**The Government's endeavour should be to provide an easy environment to the developers through relaxed regulations, policies and reforms and timely clearances. On the other hand, developer community should also realise its role in the development of the region. They should ensure the interest of all the stakeholders (government, bankers, investors & customers) while looking at their own commercial objectives."**

**Neeraj Sharma**

Partner - Assurance  
Walker, Chandio & Co



# Developments in the regulatory environment



# Developments in the regulatory environment

In the past few years, a slew of reformatory measures have already been introduced at national, state and city level. Maharashtra would be the first state to set up a Real Estate Regulatory Authority in the country with the introduction of Maharashtra Housing (Regulation and Development) Bill, 2012 recently passed by the Maharashtra Legislative Assembly. The Bill is now expected to be passed by the Legislative Council and will come into force after approval from the President.

This section provides a snapshot of the major developments with respect to the regulatory environment of the country for real estate development.

## **Real Estate (Regulation and Development) Bill 2012**

The Draft Real Estate (Regulation & Development) Bill, 2011 been cleared by the Ministry of Law and Justice. The Ministry for Housing and Urban Poverty Alleviation intends to table the Bill in the ongoing Winter Session of the Parliament. The Bill, which has been pending for some time now, is developed with the intent to establish transparency and accountability in real estate and housing transactions, thereby restoring confidence of the general public in the real estate sector.

The Bill aims to institute a regulatory oversight mechanism for facilitating disclosure, fair practice and accountability norms in the real estate sector, while also providing adjudication machinery for speedy resolutions of issues. Before being sent for vetting to the Ministry of Law and Justice, the Ministry for Housing and Urban Poverty Alleviation has suggested several amendments in the Bill.

### **Recent amendments introduced in the Bill:**

- the amended Real Estate (Regulation and Development) Bill 2012 does not mandate developers to earmark certain portions of project townships for lower-income groups
- among the amendments suggested by the Ministry for Housing and Urban Poverty Alleviation in the draft Real Estate (Regulation & Development) Bill, 2011, one of the most significant is the one making it compulsory for developers to reserve a minimum of 20% of developed land or 20% of Floor Space Index in all land development/housing projects for lower-income groups and economically weaker sections. However, this amendment has not yet been incorporated in the Bill
- the Draft Real Estate (Regulation & Development) Bill, 2012 also mandated the developers to disclose the project details including timeline, cost, approved layout plan, and sale agreement to the regulator before selling the property
- further, the government has also added a chapter on real estate agents in the Real Estate (Regulation and Development) Bill with a view to impose stringent penalties on unorganised property agents and brokers who dupe buyers or operate without a valid registration. Property brokers in India, unlike most other countries such as Australia and Japan, do not need registration for dealing in the real estate sector

# Developments in the regulatory environment

## Key features of the Bill:

- mandatory establishment of the Real Estate Regulatory Authority in every state to oversee and regulate the real estate sector
- the proposed Regulatory Authority will not only be engaged in adjudicating disputes between real estate developers and consumers, but would also be responsible for issuing registration certificates for projects that have a size of 43,052 square feet or more
- real estate developers need to mandatorily register with the proposed Real Estate Regulatory Authority before beginning the construction work on plots measuring 4,000 square metres or more
- compulsory for promoters to adhere to the approved plans and project specifications
- developers need to mandatorily deposit 70% of the amount realised for the real estate project from buyers in a separate account maintained in a scheduled bank, within 15 days of the realisation of the project
- developers need to utilise the deposited amount only for the purpose of developing the property
- no advance can be received without entering into an agreement with the customer. Sales opportunity through pre-sales/soft launch may be curtailed
- registration can be extended only up to two years beyond the original period for development granted by the local licencing authority
- mandatory web-presence of the developer on the authority's website
- the Authority has the power to take over development work, etc., in case of lapse/cancellation of the registration
- imprisonment of up to three years, or a penalty of up to 10% of the cost of project in the case the builder is found to be selling projects without registration

## Land Acquisition and Rehabilitation & Resettlement Bill, 2011

Draft Land Acquisition and Rehabilitation and Resettlement Bill (LARR), 2011 was introduced by the Government in order to facilitate land acquisition along with proper compensation mechanism. Development along with urbanisation demands for land acquisition at one point or the other. Considering the scarcity of land and growing pressure on the existing infrastructure, efforts have been made to try other initiatives such as increasing the Floor Space Index (FSI) or increasing the density in the given areas to cater to the growing population, however additional land shall still be required as many cities have reached the threshold of their carrying capacities.

To cater to such needs either private parties buy land themselves or government helps in land acquisition particularly for public purposes, however it has never been a smooth process and project affected people have more or less been neglected or under compensated. This has given rise to agitation and in worst situations, it results in stalled projects. With regards to public welfare and development needs, land acquisition has to be a fair mechanism, which ensures that there is no loss of livelihood of the affected people.



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# Developments in the regulatory environment

Under our Constitution, land has been recognised as a State subject however, land acquisition is a concurrent subject. Till date, before the draft LARR was introduced, the basic law governing land acquisition has been Land Acquisition Act, 1894. Although there are 18 other such laws of the central government for land acquisition (like for SEZ's, railways, defence, highways, etc.), the draft LARR shall enjoy the primacy over such specialised legislations that are currently in force.

This draft Bill shall be in addition to and not in derogation of the existing safeguards currently provided for in these laws. The amended Bill has been renamed as the "Right to Fair Compensation, Resettlement, Rehabilitation and Transparency in Land Acquisition Bill". The Rural Development Ministry has accepted the industry's suggestion to not apply the proposed legislation retrospectively, the ongoing projects. Instead of requiring the consent of 80% of the project-affected families, the Bill proposes to obtain the consent of 80% of the landholders. Further, the Rural Development Ministry has also rejected the Standing Committee's recommendation of non-involvement of the government in acquiring land for private companies or public-private partnership projects, even in cases where "public purpose" is involved.

The government has also amended the preamble of the Bill to specify the bodies included within the local self-government, and detail the role of these institutions. The expert group for the evaluation of the social impact assessment report comprises of the panchayat, gram sabha, municipality/Municipal Corporation. Further, the Social Impact Assessment (SIA) team will also comprise of a representative of the institutions of panchayat raj..

The Bill intends to make the proceedings of the team more transparent, and ensure the distribution of its report in the local language

## **Need for a new Law:**

Though there have been amendments in the original Land Acquisition Act, the principal law continues to be the same which is outdated and requires more focus on the need of the country.

There has been no national/ central law to provide for resettlement, rehabilitation and compensation due to land acquisition. LARR, in this scenario, attempts to address the concerns of farmers and those who are dependent on land being acquired and facilitate land acquisition to cater to the need of urbanisation, industrialisation and growing demand for infrastructure development.

## **Key features:**

- the Bill extends the ambit of the term 'affected family' to include both the land losers as well as livelihood losers
- it ensures rehabilitation and resettlement benefits for specified private purchase of land equal to or more than 100 acres in rural areas and equal to or more than 50 acres in urban areas
- the Bill mandates a set process for land acquisition comprising of a SIA survey, preliminary notification stating the intent for acquisition, a declaration of acquisition, and compensation to be given by a certain time
- the SIA study has been specifically constituted for projects requiring the government to acquire land for a public purpose
- the Bill limits the acquisition of multi-crop land with the view to ensure food security
- the Bill proposes the establishment of a Committee under the Chief Secretary for examining proposals of land acquisition for tracts of land equal to or more than 100 acres

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# Developments in the regulatory environment

- it seeks to establish an institutional mechanism comprising of Commissioner for Rehabilitation and Resettlement, the Land Acquisition, Rehabilitation & Resettlement Authority at State level, Administrator for Rehabilitation and Resettlement, for ensuring rehabilitation and resettlement, Rehabilitation and Resettlement Committee at project level, and National Monitoring Committee at Central level
- the Bill provides for enhanced compensation to the land owners and rehabilitation and resettlement entitlements along with specified timelines for payment of compensation, along with the provision of rehabilitation and resettlement entitlements
- the revised Bill permits land acquisition for production of public goods and services by private players and certain Public Private Partnership (PPP) projects provided more than four-fifths of land owners give their consent. The Standing Committee has suggested amendments to the provision that allows the government a limited role in acquiring land for private companies and PPP projects
- it mandates the doling out of 25% shares as part of compensation in cases where the Acquiring Body offers its shares to the owners of land whose land has been acquired
- it mandates compensation for the owners of the acquired land at two times the market value in urban areas and four times in case of rural areas
- it limits the urgency clause for land acquisition for purposes including Defence of India, National Security, or any other emergency arising from natural calamities
- the revised Bill has incorporated the Standing Committee's recommendation to let the states adopt a threshold for compulsory provision of relief and rehabilitation by private players
- further, the new draft Bill has revised the provision to limit the threshold of 100 acres in rural areas and 50 acres in urban areas to permit the states to decide the percentage of multi-cropped land they intend to make available for land acquisition. To address the concern of meeting the requirements of food security, the Standing Committee has recommended prevention of all agricultural land and not just that of land in multi-cropped areas
- the Standing Committee has recommended amendments to prohibit land acquisition in scheduled areas, having population exceeding 83 million people, including tribal land spread across states
- the revised Bill also proposes to include the SEZ Act, the Cantonments Act and the Works of Defence Act within its ambit
- the government has amended the provision for consent requirement from landowners/affected people in cases of government acquiring land for public-private partnership (PPP) projects with public purpose and purely private projects
- the revised Bill states that in case of PPP projects, consent from only 80% of landowners/affected people will be mandatory
- on the other hand, consent from 66% of these people will be required for private companies' acquisition of land for their use
- in the case of projects where land acquisition process has been under way for five years or more, the entire process will be nullified and brought under the new norms for a fresh start
- of the various recommendations made by the Sumitra Mahajan-headed standing committee, the government has rejected the clause to play no role in direct private purchase of land, and impose a complete ban on acquiring agricultural land

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# Developments in the regulatory environment

- by including National Investment Manufacturing Zones in 'public purpose', the Bill exempts the need to seek approval of landowners during land acquisition under National Manufacturing Policy
- the time limit for the process of securing consent and SIA has been made 6 months
- while the Bill incorporates the parliamentary panel's recommendation to determine the minimum compensation, it provides the states with the freedom to set up land pricing commissions to top up the amount and manage the process
- an additional 75% compensation will be provided, in case the "urgency" clause is invoked, as may be the case with acquisition for defence purposes
- in the amended Bill proposes that the government will play a significant role in land acquisition where PPP projects or private companies are involved. However, in order to qualify for this clause, it is mandatory for the projects to be involved in the production of public goods or the provision of public services for physical infrastructure, social infrastructure and human development projects including those involving the production of intermediate goods and services for these purposes
- to ensure that the acquisition price does not form the basis for compensation and calculation in future acquisitions resulting in speculative price spiral, the Bill ensures that the compensation is not included as the basis for circle rate for subsequent acquisitions
- compensation will be kept at two times the market rate, including solatium, for urban areas
- on the other hand, proposed compensation ranges between two and four times the market rate, including solatium, for rural areas
- a sliding scale reflecting the distance of the project from urban areas will be used for determining the exact rate
- compensation will be two times the market rate for families in rural areas closest to urban areas
- for families in rural areas farthest from an urban centre, compensation will be four times the market rate
- the states will have the freedom to assign the precise slabs of the sliding scale
- in consideration with the Standing Committee's recommendation, the Bill proposes to provide the states with the freedom to set threshold for the use of multi-crop irrigated land and restrict diversion of net sown area
- in line with the suggestion by the roads ministry, the Bill provides a one-off payment for rehabilitation and resettlement by the acquirer, who will put the entire amount in an escrow
- a state agency will be made liable to administer the ongoing commitments such as annuities and benefits
- the entitlements will be linked to the Consumer Price Index and revised every three years
- the amended Bill fails to specify any threshold on which rehabilitation and resettlement entitlements become applicable, in cases of private purchase of land
- this threshold can be fixed by the state governments after taking into account the availability of land and density of population
- the district collector has been delegated with the authority to acquire land for smaller public projects, such as schools or hospitals
- with a view to safeguard the interests of the landholders, the Bill offers an enhanced role of local self-government institutions

# Developments in the regulatory environment

## ICAI revises Guidance Note on recognition of revenue by real estate developers

The real estate sector in India has been evolving consistently over the past few years. This transition from being a highly unorganised business to an organised sector underlines the need to review varied accounting practices being followed by the real estate companies. The introduction of the **“Guidance Note on Accounting for Real Estate Transactions”** by the Institute of Chartered Accountants of India (ICAI) is a step forward in addressing subjectivity and ambiguity in a number of areas, and is all likely to bring uniformity in accounting practices.

The Note, which supersedes the existing Guidance Note issued in 2006, will also ensure comparability of financial statements. The objective of this Guidance Note is to recommend the accounting treatment by enterprises dealing in ‘real estate’ as sellers or developers.

### Key features

#### Scope

The scope of the Guidance Note has been significantly enlarged to capture all models/ structure of transactions including sale of development rights, joint development arrangements and transactions involving exchange of land with developed property.

#### Definition of project

As per para 2.1, a project is defined as “a group of units/ plots/ saleable spaces which are linked with a common set of amenities in such manner that unless the common amenities are made available and functional, these units/ plots/ saleable spaces cannot be put to their intended effective use”. A larger venture can be split into small projects if the basic conditions as set out.

#### Prerequisites for revenue recognition –

The pre-conditions to be satisfied for Revenue Recognition are as follows:

- all critical approvals necessary for commencement of the project have been obtained
- expenditure incurred on construction and development is higher than 25% of the construction cost (excluding land cost)
- at least 25% of the saleable project area is secured by eligible contracts or agreements
- at least 10% of the total amount collectible in respect of an agreement to sell (ATS) has been so collected at reporting date

**"This new accounting development is a welcome step for the companies in the real estate sector. Apart from bringing in some common set of principles for accounting, these new accounting rules will also take into consideration the current uncertainties impacting the sector and shall ensure a more realistic picture of revenues for these companies."**

#### David Jones

Partner and Practice Leader - Assurance  
Walker, Chandniok & Co





# Developments in the regulatory environment

## Key challenges:

**Transition:** long term projects where even a small portion of revenue has been recognised before 01 April 2012 will be continue to be accounted for on the basis of the existing Guidance Note. For the initial years, the companies may have to keep two separate revenue recognition computations – for projects pre and post the implementation of the revised Guidance Note.

**Project classification:** Identification of common set of amenities within a project would be crucial for evaluating the project definition. Resultantly any reassessment of project definitions may lead to significant changes in the revenues/ profit calculations.

**Payment defaults:** It is not clear if post balance sheet date defaults or payments to be considered. A complete track of the defaults made by the customers need to be maintained on a real time basis. Recognised revenues may result in subsequent reversal adjustments as a result of delayed cash inflows.

## Maharashtra Housing (Regulation and Development) Bill, 2012

Maharashtra Housing (Regulation and Development) Bill, 2012 replaces the existing Maharashtra Ownership of Flats (Regulation of the promotion of Construction, Sale, Management and Transfer) Act, 1963. The proposed Act seeks to establish transparency in the real estate sector by setting up of a Housing Regulatory Authority (HRA) and Housing Appellate Tribunal (HAT), as well as by ensuring complete disclosure of the project and providing a redressal mechanism for consumers. With the exception of its applicability to government bodies such as the Maharashtra Housing and Area Development Authority (MHADA), the Bill holds all the real estate transactions undertaken in the State within its ambit.

## Key features:

- the Bill seeks to establish the Housing Appellate Tribunal and the Housing Regulatory Authority to oversee the real estate activities currently underway in the state, thereby safeguarding the interests of homebuyers
- set up by the State Government, the HRA will be empowered with judicial and administrative authority and will be entrusted with the responsibility to ensure the compliance of promoters with the provisions of the Bill
- it is mandatory for every developer to register his project with the HRA and to display the project on the authority's website
- the promoter is required to furnish all the associated details with respect to the development of the project including details on land titles, building-wise time schedule of completion, layout plan, carpet area, date of awarding the final possession to the buyers, among many others. It is mandatory for the promoter to register even the ongoing projects with the HRA, for which occupation certificate has not yet been granted
- the promoter is required to register every project with the HRA except the ones:
  - where the total number of flats proposed to be developed is not less than five
  - where the total area of land proposed to be developed is within 250 square metres
  - where the occupation certificate has been received by the promoter prior to the coming into force of the relevant section
  - where the development work on the project involves renovation, repairs, reconstruction, redevelopment, or any other form of development not encompassing fresh or new allotment or marketing of flats
- in case of violations, the authority can cancel the registration for a particular project
- the Bill fixes the ceiling on the maximum advance that can be received by the promoter prior to entering into a written agreement for selling the property at 20% of the sale price

# Developments in the regulatory environment

- promoters who fail to award possession to the buyers within the specified timeframe, or any further date agreed by the parties, or a period of three months thereafter, will be liable to refund the amounts already received with interest rates as prescribed, in case the buyer asks for a refund
- besides, the promoter will be liable to an additional penalty as determined by the regulatory authority for failing to complete construction of the project and obtain occupation certificate within the date specified as per the agreement

## Current status:

During the first quarter of 2012, the Maharashtra State Legislative Assembly approved several provisions of the Maharashtra Housing Bill, 2012 including the setting up of the HAT and the HRA. The Act, also known as the Maharashtra Housing (Regulation and Promotion of Construction, Sale, Management and Transfer) Act, 2011, repeals and replaces the Maharashtra Ownership Flats (Regulation of the Promotion of Construction, Sale, Management and Transfer) Act, 1963.

The approved provisions mandate the real estate promoter to construct flats according to specifications approved by the local authority, and make an application to the HRA for registration of ongoing projects. Further, it is mandatory for the promoter to seek the approval of the HRA for any alternations or additions in the approved projects. The promoter is also required to refund an amount, with interest not exceeding 15% per annum, in case he fails to award possession to the homebuyer within the specified time. By passing the Maharashtra Housing (Regulation and Development) Bill, 2012, Maharashtra has become the first state in India to get a realty industry regulator.

In July 2012, the Maharashtra Housing (Regulation and Development) Act, 2012 was passed by the State's Legislative Council. The Bill is currently awaiting President's approval

## FDI in organised retail

With a noticeable slowdown in India's GDP growth, the government finally introduced the much-needed economic reforms including notification for permitting Foreign Direct Investment (FDI) in Multi Brand Retail Trading (MBRT). The notification permits multinational retailers to invest up to 51% FDI to open retail outlets in 10 States and Union Territories, which have, till date, accepted the decision to implement the reform measure.

The states and Union Territories that have agreed to open FDI in the multi-brand retail include Assam, Delhi, Haryana, Jammu & Kashmir, Andhra Pradesh, Maharashtra, Rajasthan, Uttarakhand, Daman & Diu, Manipur, and Dadra and Nagar Haveli.

The notification mandates that in order to set-up retail outlets, multinational retailers need to invest US\$100 million, of which a minimum of US\$50 million needs to be spent, within the first three year of starting the operations, for developing back-end infrastructure. Further, retail outlets would only be established in cities having a population exceeding 10 lakh. The notification also permits a non-resident entity, whether owner of the brand or otherwise, can undertake single brand product retail trading in the country.





# Developments in the regulatory environment

While the notification of FDI in multi-brand retail, on the one hand, is expected to bring in much-needed investments and white collar jobs, it could, also, on the other hand, impact the livelihood of millions of people working in the unorganised retail sector. The latter is one of the chief reasons for the measure to attract immense furore and opposition. Further, in January 2012, the government also increased the FDI cap on single-brand retail to 100% from 51%.

## Key features:

- the notification does not allow FDI in multi-brand retail for online trading, as well as in chit funds, manufacturing of cigars and cigarettes, lottery business, and transport (other than Mass Rapid Transport Systems)
- the notification mandates the foreign retailers to procure a minimum of 30% of the value of the manufactured and processed products from 'small industries' which have a total investment in plant and machinery not exceeding US\$1 million
- in single-brand retail, the government mandates global firms to source at least 30% of the value of the manufactured and processed products from India, preferably from MSMEs, village and cottage industries, artisans and craftsmen, in all sectors

The single brand retail space of the country received a major boost with the Foreign Investment Promotion Board (FIPB) clearing the application of Swedish furniture maker IKEA to establish a presence in India. The Swedish brand proposes to set up 25 single brand retail stores in India by bring in Rs 10,500 crore of FDI. In order to enter the single brand space of India, IKEA plans to have a 100% subsidiary of group Ingka Holding Overseas B.V. After being cleared by the FIPB, the proposal will now go to the Cabinet Committee on Economic Affairs (CCEA) for its review and approval.

Besides, FIPB has also cleared the three more single brand FDI proposals including of Brooks Brothers, a 51% joint venture of American luxury clothing retailer, British footwear retailer Pavers England application to open fully owned stores and investment worth Rs 98.26 crore, and Italian jewellery maker Damiani's plan to form a venture with Mehta's Private Limited.

## Direct tax provisions

### Domestic transfer pricing regulations

The Finance Bill 2012 presented by Hon'ble Mr. Pranab Mukherjee, the then Finance Minister, packed quite a few far reaching impact amendments. Though not all the proposed radical amendments could find place in the eventual enactment, invoked transfer pricing regulation on specified domestic transactions did. Transfer pricing regulation in India were applicable on international transactions for some time now, however, from financial year starting on 1 April 2012, the Finance Act 2012 has enlarged the scope of the regulations by bringing in its gamut specified domestic transactions as well.

A new section 92BA has been inserted in Direct tax statute (Income-tax Act, 1961) in this regard which specifically defines the domestic transactions which would be governed by transfer pricing regulations. As per the statute a "specified domestic transaction" in case of a taxpayer would cover the following domestic transactions:

- transactions undertaken between specified persons in relation to expenses
- transactions involving both income as well as expense side with or within tax holiday units

# Developments in the regulatory environment

To summarise the domestic transfer pricing would now entail transfer pricing planning along with statutory compliance. The assessee would be now required to comply with the following additional requirements:

- determine an arm's length transfer pricing policy applying the prescribed transfer pricing methods
- maintenance of mandatory transfer pricing documentation as specified which need not to be filed till the Assessing Officer requisitions the same at the assessment stage
- obtaining and furnishing a report from Chartered Accountant in Form 3CEB with the Assessing Officer
- the certificate and annual tax return for these tax payers has to be filed with the Assessing Officer on or before 30th November [30 November 2013 for FY 2012-13]

The invocation of the domestic transfer pricing provisions would have a significant impact on the real estate sector. For instance following transactions may have impact because of the domestic transfer pricing regulations:

- **purchase/payment of development rights/charges/Land cost incurred:** Typically a real estate group work in a system where it will have many group companies due to regulations and commercial reasons. Typically a land owning company (LOC) which may enter into a transaction where development rights associated with the land is transferred to group entity where the actual development happens. As these entities are group entities with common ownership and control, the aforesaid will be covered within the ambit of domestic transfer pricing

- **interest expense:** Similarly in real estate group the main entity of the group is normally a company which is preferred entity for raising funds for the whole group. This main entity then advances these funds to other group entities for business operation of the group. With the advent of domestic transfer pricing regulations, the amount advanced as loan should be subject to interest levy based on the Fair Market Value from the financial year 2012-13

Some other transactions that could be covered under the ambit of domestic transfer pricing regulations are as follows:

- reimbursements
- service, maintenance and administration charges
- construction cost and purchase of material
- corporate guarantee charges
- payment of royalty
- shared Services cost/ Management Cross charges
- payments to directors or their relatives
- ESOP/ ESOS cost borne for directors or their relatives ESOP/ ESOS cost reimbursed



# Developments in the regulatory environment

## Other amendments:

Due to the multi-level set up which a real estate group normally follows, certain amendments brought in Finance Act 2012 will have a positive impact on real estate sector. As per the amendment, the cascading effect of the Dividend Distribution Tax (DDT) has been removed in a multi-layered structure. The credit of DDT was available only in a two tier structure so far. Though the benefit still available only if dividend received from a subsidiary. If you receive dividend from a company in which you hold as high as 49% shares, yet there would not be any reprieve from the cascading DDT.

Amid stiff protests from all quarters had led to softening of aggressive tax position that was taken by the Budget as was initially proposed. Consequently, the date of implementation of General Anti Avoidance Rules is still not certain and how will it affect the Indian taxpayer is still not completely comprehensible currently. The exposure draft of tax accounting standards intends to harmonize, give certainty to issues and reduction of litigation; however, it lays new grounds and stakeholders would have to evolve to the changing regime.

## Indirect Taxes

### Service tax scenario

Prior to introduction of the 'negative list' concept in 2012, the Real Estate and construction industry was grappling with multiple taxable service categories in the form of 'Commercial or Industrial construction'; Construction of Complex' and 'Works Contract Services' among others. On introducing the Negative List approach it was clear that only services specified in the 'Negative List' would remain outside the tax purview. All other conceivable services would be taxable, subject to specific exemptions provided.

In the present scenario, the 'declared' services that are taxable include (i) renting of immovable property except residential accommodations used for residential purposes; (ii) construction of complex, building, civil structures; etc. that are intended for sale to a buyer and the consideration is received prior to issuance of a completion-certificate [subject to exemptions provided]; and (iii) service portion in the execution of a Works contract.

Services related to immovable properties also find specific mention in the newly introduced Place of Provision of Services Rules; which provide that the location of the immovable property would determine the taxability or otherwise of such services provided.

Essentially, real estate developers today have multiple options to discharge their Service tax liability. The definition of 'Works contract' covers construction contracts and also extends to similar activities in relation to any building or structure on land. The construction contract can now be treated akin to a Works contract and the developers have the option to reduce the value of materials transferred from the total value of the (works) contract. The following abatements are prescribed in cases where the material and other prescribed costs are not specifically ascertainable:

Coupled with the increase in basic rate of Service tax from 10% to 12%, the composition rate for payment of service tax on works contract services increased from 4% to 4.80%.

S.No	Type of contract	Value for Service tax purposes
1	New construction contracts including alterations etc.	40%
2	New construction contracts including additions, alterations etc. where total contract value is inclusive of land value	25%
3	Other ancillary contracts	60%

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# Developments in the regulatory environment

## VAT update

With the amendment in the definition of 'Sale' under the Maharashtra Value Added Tax Act, 2002 ('MVAT'), real estate developers were made liable to deposit tax on sale of flats which are under construction. The Maharashtra Chamber of Housing Industry challenged the amendment on constitutional grounds and filed a writ petition in the Bombay High Court. An interim stay was initially granted but the same was vacated earlier this year and the levy was enforced from 20 June 2006.

Given the challenges surrounding maintenance of books and accounts and keeping proper account of materials procured for construction and (input credit) VAT paid thereon, multiple modes for computing VAT liability were announced in addition to a composition scheme for discharging the liability. Worthy of note is the fact that the Composition scheme was further simplified with effect from 1 April 2010 and a flat rate of 1% of the contract value was chargeable.

The Maharashtra Government has also issued Trade Circular No. 14T of 2012 dated 6 August 2012 providing administrative relief to the real estate developers until 30 October 2012 for payment of tax. The circular also provided for leniency from the regulations in the context of late registration and filing of returns for the prior period.

**“It is interesting to know from a CRISIL report that real estate developers in Pune have taken the lead in setting standards in transparency and disclosure by proactively having their projects star rated. The enactment of the Maharashtra Housing Act by the State Government has been welcomed by investors and it should further improve the credibility of the real estate sector.**

**Tax changes like domestic transfer pricing and the VAT imposed on sale of flats in the state of Maharashtra will increase the compliance burden but affordability and superior infrastructure has pushed and will continue to create a demand for real estate in western India.”**

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## Pallavi J. Bakhru

Partner and Practice Leader - Tax & Regulatory Services  
Walker, Chandio & Co



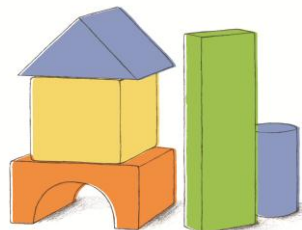
# The World Bank report

The World Bank recently released "Doing Business 2013" report for India. It sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. The report, which covers 185 countries, measures and tracks changes in regulations affecting 11 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and employing workers\*.

## Ranking with regards to dealing with construction permits

Indicator	India	South Asia	OECD
Procedures (number)	34	16	14
Time (days)	196	201	143
Cost (% of income per capita)	1,528	871.3	78.7

Source: \*The World Bank



## Procedures, time and associated costs for dealing with construction permits

S.no	Procedure	Time to complete	Associated cost
1	Submit application and design plans at Building Proposal office of BMC and pay scrutiny fee	1 day	Rs 36,417
2	Receive site inspection from Building Proposal Office	1 day	No charge
3	Obtain Intimation of Disapproval from the Building Proposal Office and pay fees	29 days	Rs 1,301
4	Submit structural plans approved by a structural engineer to BMC	1 day	No charge
*5	Apply for NOC from Tree Authority	1 day	No charge
*6	Receive inspection from Tree Authority	1 day	No charge
*7	Obtain NOC from Tree Authority	30 days	Rs 4,500
*8	Request and obtain NOC from Storm Water and Drain Department	7 days	No charge
*9	Request and obtain NOC from Sewerage Department	7 days	Rs 77,306
*10	Request and obtain NOC from Electric Department	7 days	No charge
*11	Request and obtain NOC from Environmental Department	7 days	No charge
*12	Request and obtain NOC from Traffic & Coordination Department	7 days	No charge
*13	Request and obtain NOC from CFO	7 days	Rs 13,006

Source: The World Bank

# The World Bank report

## Procedures, time and associated costs for dealing with construction permits (contd.)

S.no	Procedure	Time to complete	Associated cost
14	Obtain Commencement Certificate from Building Proposal Office and pay Development Charges	10 days	Rs 836,100
15	Request and receive inspection of plinth	1 day	No charge
16	Submit letter stating completion of building works to obtain an Occupancy Certificate and Certificate of Completion	1 day	No charge
*17	Request and obtain completion NOC from Tree Authority	3 days	No charge
*18	Request and obtain completion NOC from Storm Water and Drain Department	3 days	No charge
*19	Request and obtain completion NOC from Sewerage Department	3 days	No charge
*20	Request and obtain completion NOC from Electric Department	3 days	No charge
*21	Request and obtain completion NOC from Environmental Department	3 days	No charge
*22	Request and obtain completion NOC from Traffic & Coordination Department	3 days	No charge
*23	Request and obtain completion NOC from CFO	3 days	Rs 70,000
24	Request and receive competition inspection from BMC	1 day	No charge
25	Obtain Occupancy Certificate	1 day	No charge
26	Obtain Completion Certificate	30 days	No charge

Source: The World Bank

S.no	Procedure	Time to complete	Associated cost
27	Apply for permanent water connection	1 day	No charge
*28	Receive on-site inspection for connection to water by the Water Supply Department	1 day	No charge
*29	Obtain permanent water connection	45 days	Rs 1,210
30	Apply for permanent sewerage connection	1 day	No charge
*31	Receive on-site inspection for connection to sewerage by Sewerage Department	1 day	No charge
*32	Obtain permanent sewerage connection	30 days	Rs 50,000
*33	Apply for telephone connection	1 day	Rs 500
*34	Receive on-site inspection and connection to telephone by the utility provider	2 days	No charge

Source: The World Bank

\*Takes place simultaneously with another procedure



# Pune Master Plan: an overview

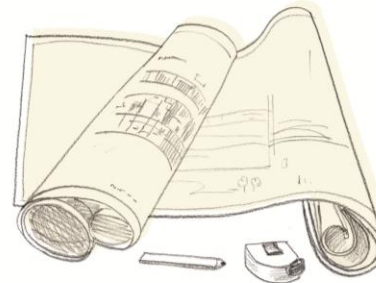
A notification was issued by the government mandating all projects. The accelerated pace of economic growth, industrial development and enhanced income opportunities in Pune calls for a need for strategic spatial planning, regularisation and planning for enhancing sustainable urbanisation. Particularly significant among the many urban challenges associated with a rapidly growing city like Pune is the unauthorised development of slums and other informal dwellings populated with poor urban dwellers residing in deplorable and sub-standard conditions.

With a view to develop Pune as a sustainable city replete with the sufficient resources and infrastructure to support the continuous increase in population, the government sanctioned the first Town Planning Scheme for Shivaji Nagar area way back in 1918. Thereafter, the first Master Plan for the Pune city was prepared in 1952, following which the first Development Plan, compliant with the new legislation, was prepared in 1966. In 1987, the first revision of the Development Plan was sanctioned, and till 1989, eight Town Planning Schemes were finalised. The Development Plan of Sutarwadi, which was prepared in 1992, was sanctioned in 1995.

The Pune Municipal area was merged with 38 fringe villages in 1997, of which 5 were partly and 15 fully were deleted from the ambit of the municipal area in response to the protests over land reservations. The draft Development Plan for the development of the newly merged 23 villages was submitted to the State Government by the PMC in December 2005, and is currently under review. Revision and approval of the sanctioned Development Plan 1987-2007, covering an area of 146.1 square kilometres, is underway for the period 2007-2027.

The revised Plan spans the development activities in the old city, along with special provisions for the a transport hub, schemes for housing for the poor, metro rail project and cluster development of old dilapidated wadas. The draft Development Plan 2007-2027, which was prepared in 2011, was approved by the PMC's City Improvement Committee (CIC) and is currently awaiting approval from the State Legislature. The first draft of the Development Plan for the old Pune city, applicable till 1997, was prepared in 1982, and sanctioned in 1987. With the execution of works nearing just 20% towards completion, the government granted a 10-year extension to the Plan.

An additional extension till December 2010 was granted by the State Government to the civic body in 2007. The new Development Plan was finally prepared by the civic administration and submitted to the CIC a year later than the stipulated time in December 2011. Following the approval for the draft Development Plan in December 2011, the government issued a notification in March 2012 to develop the 23 villages merged in the Pune city limits. Once the plan to develop the fringe areas in a planned and regulated manner goes underway, it would also expedite the real estate activity in the region. Besides, the proposed biodiversity park project in the 23 villages merged in the civic limits is still awaiting approval from the government.



# Pune Master Plan: an overview

The project proposes that 1,600 hectares of land spanning hills, forests and other green areas in these fringe villages be reserved for developing bio-diversity parks. When approved, the Act will restrict landowners to undertake construction on only 4% of the available land holdings in the proposed bio-diversity park. Recently, a three-member committee was constituted to survey the growth of slums and illegal constructions on the fringes of Pune. The fringe and merged villages along with an area spanning almost 20 to 25-kilometres radius from the PMC limits have displayed rampant violation of the requisite 0.4 FSI.

Further, during October 2012, the State Government issued a notification to bring 28 fringe villages into the PMC's limits, which will increase the civic body's area to more than 450 square kilometres. Pune, which according to the City Development Plan has transitioned from a mere five square kilometres area to 243.84 square kilometres today, is currently the eighth largest metropolitan city in India. Rapid urbanisation and growth of the city has not only created enhanced livelihood opportunities for the rising population, but has also produced novel urban planning challenges for the civic bodies. The first step towards expansion of the city limits dates back to 1958 when small pockets of land in parts of the then villages of Katraj, Dhankawadi, Lohegaon and Dapodi were integrated within the city limits.

With the current expansion of the PMC limits to include an additional 28 villages, it has become imperative for the PMC to develop and plan integrated development of old city areas, the 23 villages merged in the city limits in 1997 and the new 28 villages taking into account the impact on the agricultural land in the fringes of Pune. The merger of the villages will pave way for gated communities and residential complexes around the city, which is currently reeling under the issue of land shortage. Further, the decision also provides answer to city's fast growing demand for affordable housing and infrastructure development, while curbing illegal constructions in the fringes. The merger will also enable the developers to avail 100 % profit tax exemption while undertaking construction activities in the villages.





# Infrastructure development in Pune

A slew of projects have been undertaken by the Pimpri Chinchwad Municipal Corporation (PCMC) to boost the infrastructure in and around the city. The PCMC works alongside the Pimpri Chinchwad New Township Development Authority (PCNTDA) to ensure sound infrastructure for the city. Several six-lane roads have been constructed in and around the city to boost its connectivity with the surrounding areas. Besides constructing over 20-25 over bridges across the city, the PCMC is also planning to harness the water of the Andra Dam on the River Andra in Maval Taluka to alleviate the water supply woes of the city's inhabitants.

For better connectivity, the municipal bodies are also planning to construct several roads from the city to the Kharadi, Baner and Katraj areas, as well as one from Warje to Vitthalwadi. Further, the development of an international airport in the city is also underway. While the existing infrastructure of the city is sufficient to a large extent in meeting the needs of its growing urban population, it lags far behind the global benchmark. To circumvent this issue, the State Government is undertaking an array of initiatives.

To improve the connectivity between the two major cities in the state, the Maharashtra State Road Development Corporation (MSRDC) is planning to develop around 15 flyovers on the old Mumbai-Pune Highway (NH 4). An amount to the tune of Rs 2,600 crore has been earmarked for the project which is expected to culminate by 2017, and be executed via a PPP model. The flyovers are planned to be constructed along the major intersections on the route at locations including Chowk Naka, Karjat Phata, Ramwadi-Nishiland Park, Khalapur, Ghodawli Phata, Mahad, Palasadhari, Dan Phata, Lodalvali, Nadode Gaon, Khopoli and Shedwali.

## Status of Integrated Road Development Project in Pune Metropolitan Region

### Flyovers

Project	Cumulative cost (Rs lakh)	Additional information	Current status
Flyover at Hadapsar Saswad Phata	1193	17.20 metres wide and 958.40 metres in length, two-way 4 lane flyover	The project is in progress as PWD Maharashtra is planning for four-laning of Hadapsar-Saswad-Belsar-Phata
PWD's flyover at Hotel Seven Loves chowk	660	17.20 metres wide and 642 metres in length, two-way 4 lane flyover	Opened for the public in October 2003
Flyover at University	2026	The flyover will span a total length of 1419.5 metres and have a width ranging from 7 metres to 12 metres	Completed
Flyover near Rahul Talkies	923	The flyover will span a total length of 346 metres and have a width of 16.4 metres. The project involves the construction of a 2-way, 4-lane carriageway having a 133 metres ramp	Completed

Source: Grant Thornton research

### River Bridge

Project	Cumulative cost (Rs lakh)	Additional information	Current status
River bridge on Pawana River at Rawet	650	The project involves the construction of a river bridge with 8 piers and 8 spans of 12.5m c/c 1 span of 108 metres. The river bridge will have an approaching length of 150 metres towards its Pune end, and 95 metres length towards Ravet side	Completed

Source: Grant Thornton research

# Infrastructure development in Pune

With a view to address the rising issues that dominate Pune's civil infrastructure, including traffic congestion, pollution, accidents, etc., the government undertook the improvement and widening of certain roads, construction of Railway Over Bridges (ROB) and tunnels. Maharashtra State Road Development Corporation (MSRDC) was selected by the Government of Maharashtra to implement the Integrated Road Development Project in Pune Metropolitan Region which comprised construction of 18 new flyovers in the city. The project, which was initially estimated to cost Rs 260 crores, comprised of 33 works including nine ROB, six road improvement works, two River Over Bridges, 15 flyovers and widening of one ROB.

In the State Budget 2012-13, the city was allocated Rs 949.82 crore for conducting the proposed survey for the new rail route between Pune and Nashik. Earlier in 2005, the PMC submitted Pune's Development Plan to the Urban Development Department (UDD) of the government to ensure planned development of the city to keep pace with its growth during the forthcoming 20-25 years. The plan intends to establish the Pune Metropolitan Regional Development Authority (PMRDA) and the Pune Metro, as well as develop 23 villages present within the city limits.

Recently, the State issued a government resolution with a view to set the plan to develop the Pune Metro in motion. A Special Purpose Vehicle, called the Pune Metro Rail Corporation, has been instituted to implement and manage the Rs 2,593-crore mass transit project.

## Status of Integrated Road Development Project in Pune Metropolitan Region

### Roads

Project	Cumulative cost (Rs lakh)	Additional information	Current status
Mundhawa Kharadi Road	561	The road spans a total length of 6.9 metres. The project involved the strengthening and widening of the road with BT up to 14 metres	Completed
Baner Road	285	The road spans a total length of 4.82 kilometres. The project involved the strengthening and widening of the road with BT up to 12 metres	Completed
Katraj-Kondhawa-Hadapsar-Saswad Road	NA*	The project to develop the 5 kilometre long road was launched in 2001	Completed
a) Katraj - Kondhawa-Handewadi Phata (PMC limits)	186	The project involved the widening and strengthening of the existing 6 metres wide road with BT up to 12 metres	Completed
b) Handewadi Phata to Saswad Phata (PWD limits)	309	The project involved new road construction with BT up to 12 metres	-
c) Remaining Length in PMC limits	151	The project involved the widening and strengthening of the existing 6 metres wide and 3.3 kilometres long road with BT up to 12 metres	Completed
<b>Source:</b> Grant Thornton research			*Not available

# Infrastructure development in Pune

PMC is the nodal agency of the Pune Metro project. Set to be completed within a span of 5 years, with 3 years being reserved solely for construction activities, the project is being developed using the Built-On-Transfer (BOT) approach. Of the total project cost, 10% will be contributed by the civic body, 20% each by the State and Central Governments, while the remaining 50% will be raised through debt instruments.

The cost of developing the Phase I of the 15 kilometres Ramwadi-Wanaz on an elevated track is estimated at Rs 2,593 crore. Starting from Vanaz, the route will pass through Paud Road, Karve Road, Deccan, J M Road, Yerawada, Nagar Road, Pune Court, Mangalwar Peth, Kalyaninagar, Railway Station, Ruby Hall, Bund Garden Road, and Ramwadi. It is also proposed to extend this route by 3.7- kilometres to Chandan Nagar. The 44-kilometres long Phase II of the project will pass through Shivajinagar, Katraj, Pimpri Chinchwad, Hinjewadi, Deccan, Bundgarden, Swargate, and Nigdi.

The Metro, which will have its main depot at Kothrud, will have a separate line for the Pune Airport. The construction of the Metro on the Vanaz-Ramwadi-Chandannagar route is being undertaken on priority and is expected to be completed within a span of the next three years. The construction of the depot and metro stations requires 18.44 hectares of land cumulatively.

## Status of Integrated Road Development Project in Pune Metropolitan Region

### Railway Over Bridges (ROBs)

Project	Cumulative cost (Rs lakhs)	Additional information	Current status
ROB at Fursungi	772	The construction of the 2-lane ROB along with a SEZ in Fursungi have expedited the development of special townships in the region	Completed
ROB at Mundhwa	525	The ROB is 16.85 metres in width and has a ramp length of 388 metres	
ROB at Wadia College (Widening work)	139	The ROB is 10.2 metres in width and has a ramp length of 304 metres	Completed
ROB at Theur	449	The ROB is 12 metres in width and has a ramp length of 632 metres	Completed
ROB Udaybaug	698	The 3-lane ROB will be 783 metres in length and 12 metres in width, and have a ramp length of 495 metres	Completed

Source: Grant Thornton research

#### Projects in the planning phase:

- flyover at Swargate
- flyover at Market Yard
- flyover at Panmala
- ROB at Manjari
- ROB at Kiwale
- Hadapsar Saswad Loni Kalbhori Road

# Governance and transparency

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# Managing risks for a long-term sustainability

**Sound corporate governance is critical to positive valuation outcomes for both public and private real estate companies. If the enterprise is publicly traded, its rigorous focus on effective governance is mandated stringently by regulations, which set high standards for corporate transparency, internal organisational controls and executive accountability.**

A public company's management is responsible for assessing the quality, comprehensiveness and accuracy of internal corporate controls and financial reporting practices. In addition, the company's external auditors are expected to express an independent opinion relative to management's assertions concerning the quality, comprehensiveness and effectiveness of those controls and practices.

The present day challenges of the real estate sector are increasingly complex and diverse. The industry is facing the headwinds of recent regulatory changes, inflation, declining demand, scarcity of skilled manpower, high cost of finance, stagnating selling prices and increasing land cost. Also, maintaining credibility while meeting customer expectations in terms of quality and timely delivery is another major challenge plaguing the sector.

This has created a need for companies to introspect and work out a framework for improved governance. Doing this will help them in optimising their internal efficiencies and manage risks successfully to face the ever increasing challenges in this dynamic environment.

The increasing investor, regulatory, and public concern regarding corporate governance makes this an opportune time for real estate companies to assess the quality and structure of their governance framework.

The quality of corporate governance can be an important driver of shareholder value as companies with strong governance systems have always outperformed their peers in a wide range of settings. The composition and structure of corporate boards have been instrumental in determining the companies' ability to cope and react to situations such as declining operating margins, and increasing internal and external risks, external challenges like regulatory changes, etc. Corporate governance has to be perceived as a big opportunity for real estate companies in order to improve their enterprise value.

## **Fundamentals of a sound corporate governance structure**

What constitutes sound corporate governance will evolve in the light of the changing circumstances of a company and must be tailored to meet those circumstances.

An in-depth understanding of the fundamentals of corporate governance is essential for establishing a sound corporate governance framework. These fundamentals include the below:

- establishing the roles of senior executives and the board
- maintaining a balance of skills, experience and independence on the board, which is appropriate to the nature and extent of the company's operations
- ensuring integrity among those who can influence a company's strategy and financial performance, as well as responsible and ethical decision-making, while taking into account not only the legal obligations but also the interests of the stakeholders
- providing a timely and balanced picture of all material matters

# Managing risks for a long-term sustainability

- clearly recognising and upholding the rights of company owners, that is its shareholders
- meeting the need for information of a modern investment community is also paramount in terms of accountability and attracting capital. Presenting a company's financial and non-financial position requires processes that safeguard, both internally and externally, the integrity of company reporting
- exercising effective oversight and internal control to manage the uncertainty and risk inherent in business
- providing rewards and incentive schemes to attract skills and talent into the company
- achieving the benchmark performance expected by various stakeholders

## **Establishing an efficient corporate governance structure within the organisation**

### **Lay down solid foundations for management and oversight**

Companies should recognise and disclose the respective roles and responsibilities of the board and management.

The company's governance framework should be designed to:

- enable the board to provide strategic guidance to the company and effective oversight to the management
- clarify the respective roles and responsibilities of board members and senior executives in order to facilitate their accountability to both the company and its shareholders
- ensure a balance of authority so that no single individual has unfettered powers

Companies should recognise and disclose the functions reserved for the board and those delegated to senior executives.

### **Structure the board to add value**

Companies should have a board having an effective composition, size and commitment to adequately discharge its responsibilities and duties.

- an effective board is one that facilitates the effective discharge of duties imposed by law on the directors, while adding value in a way that is appropriate to the company's circumstances. The board should be structured in such a way that it:
  - has a proper understanding of, and competence to deal with, the current and emerging issues of the business
  - exercises independent judgement
  - encourages enhanced performance of the company
  - can effectively review and challenge the performance of the management



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# Managing risks for a long-term sustainability

## Promoting ethical and responsible decision-making

Companies should actively promote ethical and responsible decision-making.

To be successful, companies need to have regard for their legal obligations and interests of a range of stakeholders including shareholders, employees, business partners, creditors, consumers, the environment and the broader community in which they operate. It is important for companies to demonstrate their commitment through appropriate corporate practices and decision-making.

Companies should:

- clarify the standards of ethical behaviour required from the board, senior executives and all employees, and encourage the observance of those standards
- comply with their legal obligations and have respect to the expectations of their stakeholders

Companies should establish and disclose a code of conduct pertaining to:

- the practices necessary to maintain confidence in the company's integrity
- the practices necessary to take into account their legal obligations and the expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

**“It’s hard to think of a time when corporate governance was more important for Indian real estate companies. While the sector is growing significantly, there is increasing competition, both buyers and institutional investors have more choice and all stakeholders are getting cautious. A major differentiator is how well a company demonstrates transparency, efficient use of money and business process effectiveness for quality and timely project execution. It is for this reason that governance framework and risk management in real estate is now much more than just a means to regulatory compliance.”**

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**Lav Goyal**

Partner & Practice Leader - Business Risk Services  
Grant Thornton India LLP



## **The importance of transparency**

While there are various reasons for the position in which the real estate sector finds itself today, there should be no question that improved transparency is required.

Real estate has emerged as a mainstream investment asset class, with explosive growth in cross-border capital investment via direct equity and indirect asset-backed capital markets products. Within this context of globally distributed and highly leveraged real estate risk exposure, the bursting of the real estate asset bubble yielded disastrous consequences for many investors and lenders.

A lack of investment in market transparency and risk management has allowed asset performance data to remain siloed, tangled, disparate and error-prone. Data inconsistency, incompleteness and fragmented information flows mean that investors are making business decisions with a limited grasp of the far-reaching financial, risk and compliance implications.

While the boom years for real estate allowed this situation to proliferate, today's market pressures on asset valuations and profit margins, combined with a tsunami of regulations, make appropriate risk management and true investment transparency a prerequisite for attracting and retaining capital going forward. Successful investors will be the ones who can retrieve accurate data, translate it consistently and present it according to user requirements.



# Managing risks for a long-term sustainability

## **Safeguarding integrity in financial reporting**

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting. This requires companies to put in place a structure for review and authorisation designed to ensure the truthful and factual presentation of the company's financial position. The structure would include, for example: a review mechanism that also considers financial statements by the audit committee

- a process to ensure the independence and competence of the company's external auditors
- a structure that does not diminish the ultimate responsibility of the Board to ensure the integrity of the company's financial reporting. The board should establish an audit committee

## **Make timely and balanced disclosures**

Companies should promote timely and balanced disclosure of all material matters with regards to the company.

Companies should put in place mechanisms designed to ensure compliance with the requirements such that:

- all investors have equal and timely access to material information pertaining to the company
- the information shall include its financial position, performance, ownership and governance company announcements are factual and presented in a clear and balanced way. "Balance" requires disclosure of both positive and negative information

Companies should establish and disclose written policies and procedures designed to ensure compliance statutory disclosure requirements and to ensure accountability at a senior executive level for that compliance.

## **Recognise and manage risk**

Companies should establish a sound system of risk oversight, risk management and internal control. Risk management is the culture, processes and structures that are directed towards taking advantage of potential opportunities while managing potential adverse effects.

A risk management system should be designed to:

- identify, assess, monitor and manage risks related to the clear title of land, compliance to the various statutory norms, adherence to the tight project schedules, frequent design changes, improper construction planning, frequent changes in the prices of steel and cement, improper reporting and monitoring of the projects, inadequate labour force to ensure timely completion of work at the sites, and to manage timely availability of the material at the sites
- identify inadequate tracking of the material being used in construction activities, inadequate quality inspection of the material used/ installed and material changes to the company's risk profile
- provide solutions to enhance the environment for identifying and capitalising on opportunities that create value



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# Managing risks for a long-term sustainability

## **Risk profile**

The board should establish policies on risk oversight and management. It should set out the company's appetite for risk and have regard to the material business risks faced by the company as identified by the company's risk management system. The risk profile should be regularly updated and reviewed.

## **Remunerate fairly and responsibly**

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

The awarding of remuneration is a key area of focus for investors. When setting the level and structure of remuneration, a company needs to balance its desire to attract and retain senior executives and directors.

It is important that there be a clear relationship between performance and remuneration, and that the policy underlying executive remuneration be understood by investors. The board should establish a remuneration committee.

## **Conclusion**

Corporate governance is a big opportunity for real estate companies to effectively manage risks, improve compliances and optimise process efficiencies and costs. This can help companies to meet customer expectations in terms of quality and timeliness of delivery thus helping them to outshine in the industry by enhancing credibility.



## **Special considerations**

### **Reputational risk and crisis management**

Considering how quickly negative information can spread in today's hyper connected marketplace, even minor missteps can quickly sweep through social media and deliver a corporate black eye, sometimes even a knockout punch. Although it's impossible to anticipate or control every event that could give rise to reputational risk, real estate companies must have plans in place for what to do should an unforeseen event develop into a full-blown public relations crisis.

Realize, too, that your company may not have the luxury of waiting to assemble top executives and outside advisers to discuss a crisis in depth before deciding on a course of action. With this in mind, organizations should make contingency plans for rapidly responding to and minimizing the effects of crises that may range from high-profile cyber-attacks to public relations debacles. A solid crisis management plan should include designated responders and streamlined procedures to address situations before they spiral out of control.

### **Examine third-party data security measures**

Real estate developers must have internal controls in place to protect sensitive and confidential data stored at their offices. They need to examine how company data is protected and how secure are their systems in terms of intrusion detection, firewalls, physical security, timely application of security patches, and data leakage protection, among other safety measures.

### **Review existing policies**

Not only are policies needed to govern the various technologies, but internal auditors have to ensure that those policies are adequate and enforceable. When it comes to social media, for instance, how far-reaching are the policies? Do they cover whether employees can make comments about the company while using personal accounts? As an example, a company considering an acquisition would not want one of its employees broadcasting from the office of the acquisition target about what a great cafeteria it has. Also, does someone monitor Facebook or Twitter for corporate mentions, especially those that could signal an emerging customer service or public relations issue.

### CRISIL Real Estate Star Ratings

During 2010, Pune emerged as the top city in Maharashtra in terms of the number of projects certified by the Crisil Real Estate Star Ratings (CREST). CREST was launched in 2010 by Credit Rating and Information Services of India Limited (CRISIL) with an objective to ensure the availability of verified information on projects to empower consumers to make informed investment decisions. The city accounts for a total of nine star-rated projects till date, while Mumbai – the major real estate market in Maharashtra, has a total of five such projects. The figures further underscore the efforts of Pune in setting standards in transparency and disclosure.

CRISIL Star-rated projects in Pune

Project	Location	Developer	CRISIL Star-rating
Bajaj House	Viman Nagar	Ashray Premises	7-Star
Sky Vie	Viman Nagar	Lunkad Realty	7-Star
Rohan Mithila	Viman Nagar	Rohan Group	7-Star
Rohan Leher	Baner	Rohan Group	7-Star
Megapolis – Phase I	Hinjewadi	Kumar Properties	6-Star
Malpani Greens	Wakad	Malpani Estates	6-Star
Anandgram	Yavat	Vastushodh Project Private Limited	5-Star
Pristine Properties	Wakad	Pristine Prolife - Buildings A to J	5-Star
Nandan Prospera	Baner	Nandan Associates	5-Star

Source: CRISIL

# Sustainability and green buildings

## What does sustainability mean?

Grant Thornton defines sustainability as assessing the long-term viability of a project, programme or initiative in terms of its use of resources and its environmental, social and economic impacts. Clearly the key words are "long term" and "viable".

There is plenty of room for debate. Nevertheless, both businesses and public bodies are now making a strong link between the sustainability of the environments in which they operate and their own long-term sustainability and viability.

## The four pillars of sustainability

There are four key aspects to sustainability, which are widely documented. They can be illustrated as „pivot of sustainability“.



The **social**: a good quality of life for citizens, good public health, mechanisms to tackle deprivation and inequality, and creation of an attractive community or communities to live in.

The **economic**: which is the requirement for the city to sustain its competitive position and thrive in business terms.

The **environmental**: which is about both the physical envelope in which a city exists, and the "footprint" of the city as it draws on basic resources.

The **institutional** dimension: This plays an interlocking or supporting role to the other „pillars“ – creating sustainable institutions and governance mechanisms which align with long term sustainability objectives. The recent institutional history of India is one of profound change, often leading to fragmentation and instability.

The relationships between the individual, the businesses that sustain, the institutions that govern and the communities that provide the social context, have changed beyond recognition in the past two decades. Addressing the institutional, or governance dimension, is therefore a major component of any sustainability strategy.

## Pivot of sustainability

A sustainable city measures itself at the moment in qualitative terms – by the leadership and governance arrangements that are in place to ensure that the characteristics of a sustainable city are funded, protected, influenced and managed effectively.

For example:

- what policy statements and commitments have been made to tackle climate change and sustainability?
- how are these policies tied to the strategic long-term planning for the city?
- how informatively are carbon emissions and energy usage measured?
- how are responsibilities for climate change, energy use and sustainability managed across the city?
- what level of collaboration exists between the city authorities, other public sector bodies, third sector and businesses to deliver an agenda focused on the city itself?
- how successfully are behaviours being changed to move towards households and businesses becoming sustainable? And what is the role played by communities in this process?

# Sustainability and green buildings

Pune consists of a number of green buildings that are developed with a focus on key areas such as human and environmental health, sustainable site development, water efficiency, energy and waste methods, materials and resource selection, and indoor environmental quality and innovation.

The environment friendly approach has also made it possible to construct the facility at a lower cost compared to other facilities of comparable size, ultimately leading to a lower life cycle cost and smaller environmental footprint in the long term.

The Pune realty industry has experienced several trends over the years and there has been a growing concern and attention to sustainability. Several developers in Pune have come forward to provide green specifications such as solar water heating systems, sewage treatment plants and rainwater harvesting system.



## Advantages of green buildings

- green homes are designed and constructed in a manner which reduces their impact on the environment
- green buildings are around 25–30% more efficient in energy consumption
- they use around 20–30% less water than conventional buildings
- the materials used in the construction of green home projects last a lot longer than the conventional ones
- they have superior ventilation systems which bring in fresh outdoor air instead of recycling used-up indoor air

## Some IGBC registered and certified green homes projects in Pune

Project name	Developer	Built-up Area (sq. m)	Rating
Oval Nest	Shree Sai Associates	16,592	Platinum
Mahindra Royale	Mahindra Lifespace Developers Limited	35,990	Pre-certified, Platinum
Megapolis	Kumar Properties	1,39,364	Pre-certified, Platinum
Park Infinia	Kumar Properties	3642	Pre-certified, Platinum
SDB2 - SEZ	Wipro Limited	38,715	Gold

Source: Grant Thornton research

# Sustainability and green buildings

With a modest beginning of 20,000 square feet of green footprint in the country in the year 2003, now (in 2012), over 1,620 green building projects with a footprint of over 1.15 billion sq. ft are registered, of which 245 Green Buildings are certified and fully functional. (Source: IGBC)

There are two rating systems in India at present viz. Green Rating for Integrated Habitat Assessment (GRIHA) – conceived by The Energy Research Institute (TERI) and Leadership in Energy and Environmental Design (LEED) – formulated by India Indian Green Building Council (IGBC) that certify various buildings and structures after evaluating them on a specific set of parameters.

The green building movement in the country spearheaded by Confederation of Indian Industry (CII) is gaining momentum with new projects being certified under the Leadership in Energy and Environmental Design (LEED) rating system, the most widely accepted benchmark for green buildings the world over.

These projects have been rated after being evaluated on the following five key areas:

- sustainable site development
- water savings
- energy efficiency
- materials selection and
- indoor environmental quality

## Some IGBC registered and certified green homes projects in Pune (contd.)

Project name	Developer	Built-up Area (sq. m)	Rating
Wipro Limited - SDB3	Wipro Limited	41,806	Gold
Admin building,HED Telagon complex	Larsen & Toubro Limited	2,322	Platinum
Suzlon One Earth	Suzlon Energy Limited	55,742	Platinum
Tata Motors Ltd.	Tata Motors Ltd.	683154	Gold
Commerzone Bldg No - 4	Commerzone	37,161	Gold
Commerzone Bldg No - 6	Commerzone	37,161	Gold
Commerzone Bldg No - 7	Commerzone	37,161	Gold
Haworth Pune India Regional Office	Haworth	7,900 sq.ft	Gold
Software Development Block 3	Wipro Limited	4,43,473 sq.ft	Gold
Thermax Corporate House	Thermax India Ltd	64000	Silver
Yamuna - Corporate office Kirloskar Brothers Limited	Kirloskar Brothers Limited	1,29,995 Sq.ft	Platinum

Source: Grant Thornton research



# Sustainability and green buildings

## Some IGBC registered and certified green homes projects in Pune (contd.)

Project name	Developer	Built-up Area (sq. m)	Rating
BlueRidge	FlagShip Infrastructure Pvt. Ltd	8,36,127	N/A
Orange Life	SCN Builders & Developers	10,219	N/A
WADI	Jitendra R Tanti	3716	N/A
Loreal India	L'OREAL India Pvt. Ltd	13,935	N/A
Raheja Vistas Phase I (Bldg A & B)	Cavalcade Properties Pvt Ltd	7542	N/A
Akruti Country Woods	Akruti City	34773	N/A
Amit's Bloomfield Phase-I	Amit Enterprises Housing Ltd.	65032	N/A
Lush County	I-Ven Kolte-Patil Project (Pune) Pvt Ltd	126028	N/A

Source: Grant Thornton research

### Green Building Standards and Certification Agencies

**LEED: Leadership in Energy and Environmental Design**  
 Country of origin: **United States**  
 Certified over **1500 projects** since 2000  
 Growing by more than **50%** a year

**BREEAM: Building Research Establishment Environmental Assessment Method**  
 Country of origin: **United Kingdom**  
 Certified over **1700 projects**

**CASBEE: Comprehensive Assessment System for Building Environmental Efficiency**  
 Popular in **Japan**, Green Star in **Australia**, and Green Mark in **Singapore**

**IGBC: Indian Green Building Council**  
 Country of origin: **India**  
 Registered buildings: **+500**  
 Certified buildings: **+70**  
 Green building footprint: **+360 million square feet**

**Green Rating for Integrated Habitat Assessment (GRIHA)**  
 Country of origin: **India**, The Energy research Institute (TERI)

### Ratings for green buildings

# Sustainable townships near Pune

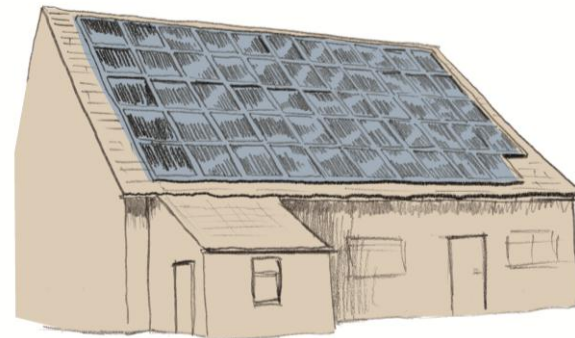
## Magarpatta

The spatial dimensions of urban problems underscore the need for developing sustainable cities and townships, which have the requisite resources and infrastructure to manage the unprecedented increase in their population. Witnessing the need to develop sustainable cities capable of providing adequate and sustainable human settlements and services to support the rapid pace of urbanisation in and near Pune, the concept of Magarpatta City was proposed in 1993-94. The well-developed residential-cum-industrial settlement, located on Pune-Solapur Highway, was created with the intent to address the rising concern of land availability with the policy of sustainable development.

The township was named after the majority of farmer families in the area that had the family name 'Magar', while the affix 'patta' denotes a patch of land. Magarpatta City comprises of 400-acres of Integrated Township with spaces for residential, commercial and SEZ development. This satellite township of Pune is home to a number of leading IT/ITES companies including EDS, Mphasis, Accenture, Patni, among others. As the pressures on urbanisation increased in the area, the farming community decided to pool its land and form their own development company, Magarpatta Township Development and Construction Company Limited.

The shareholders of the corporate body were the resident farmers of the area, whose shareholding pattern is as per the proportion to their land holding. Magarpatta Township Development and Construction Company Limited undertook the development of the area with the intent of fulfilling five key objectives: good living standards; a clean and sustainable environment; state-of-the-art working conditions; modern educational infrastructure; and reliable security. The master planning and architectural development of the erstwhile village of Hadapsar, for developing Magarpatta City was undertaken by Associated Space Designers Private Limited.

In order to ensure that the networked society achieved the key objectives, the farming community created an extensive green cover in the area with 25,000 trees and lawns spread over 25 lakh square feet. Besides, the community also undertook a slew of other environment-friendly initiatives including the installation of solar water heating system in every residential complex in Magarpatta, using bricks and construction material made with fly ash, constructing green buildings, preventing garbage dump by deploying vermin-culture and bio-compost, etc.



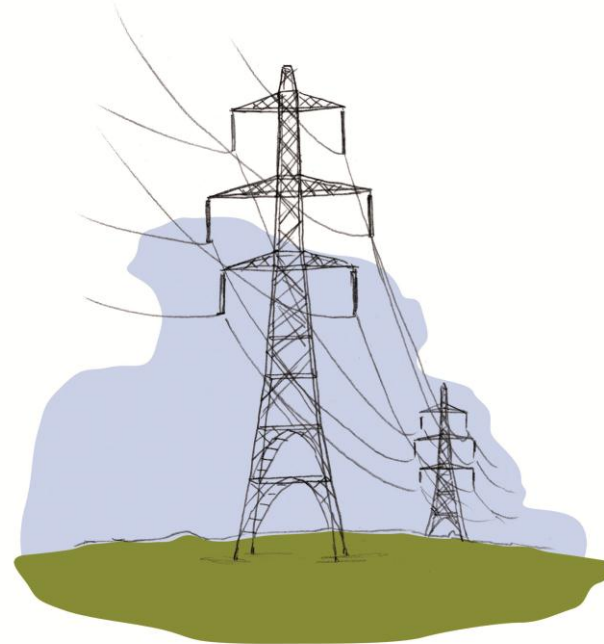
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# Sustainable townships near Pune

## Lavasa

Given the enormity and dynamism of the challenges facing the rapid pace urbanisation in India, the government is leaving no stone unturned in applying innovative solutions for achieving sustainable urban growth including encouraging private sector participation in such development activities. Envisaged as independent India's first hill city, Lavasa is a recent example of private sector participation in building cities compliant with the principles of ecological sustainable environment and urbanisation. The master plan of Lavasa for creating five new towns spread across the seven hills of the Mose Valley in Maharashtra was conceived by internationally known design consultants HOK.

The master plan for developing the sprawling township has won three global awards including the 'Award of Excellence' from the highly revered Congress of New Urbanism. The Lavasa project is being developed by the Indian infrastructure major HCC (Hindustan Construction Company). The Lavasa City Planning standards are being dictated by the ideas of the 'green compact city', which ensures the deployment of several green practices including green roofs, bioswales, reforestation, , rainwater harvesting, utilisation of environment-friendly construction materials, and many more.



# Investment opportunities in Pune

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# Investment opportunities in Pune

**A key shift in the economic power from the leading urban agglomerations to the Tier II and Tier III cities is currently underway. Globally, the Tier II and Tier III cities are making a sizeable contribution to the economic growth.**

In India, the Tier II city of Pune consistently strives to outpace the megacities in terms of industrial growth, infrastructure development and population growth. At Rs 1.27 lakh (2010-11), the per capita income of Pune is the second highest in Maharashtra, after Mumbai. As per the Indian Statistical report 2011, this figure marks an increase of 170% over the last decade. The economic development of the city has gained momentum in recent years with the growth of its manufacturing, IT and education sectors. The city is fast emerging as one of the fastest developing IT destinations in India, with several software majors including Infosys, TCS, Wipro, IBM, Cognizant, etc making it as one of their primary centres of operations.

The growth of the industrial and manufacturing sectors in the city commenced with the entry of the ancillary engineering industries in the 1960s. Today, the city has emerged as the hub of major automobile manufacturers including Bajaj Auto, Kinetic Engineering, Force Motors, Tata Motors, Daimler Chrysler, etc, and often termed as “Detroit of India”. The 1,500-kilometres long Delhi Mumbai Industrial Corridor (DMIC) is slated to further boost industrialisation in the city.

The city is witnessing an influx of migratory workforce due to the rising employment opportunities from sectors including education, BFSI, hospitality and IT/ITeS. Pune emerged as the second major employment provider at 10.2% among Tier II cities during the January-March 2012 quarter. As per another report by a prominent recruitment tendering platform, the city is expected to contribute one of the highest hiring opportunities in the second half of 2012.

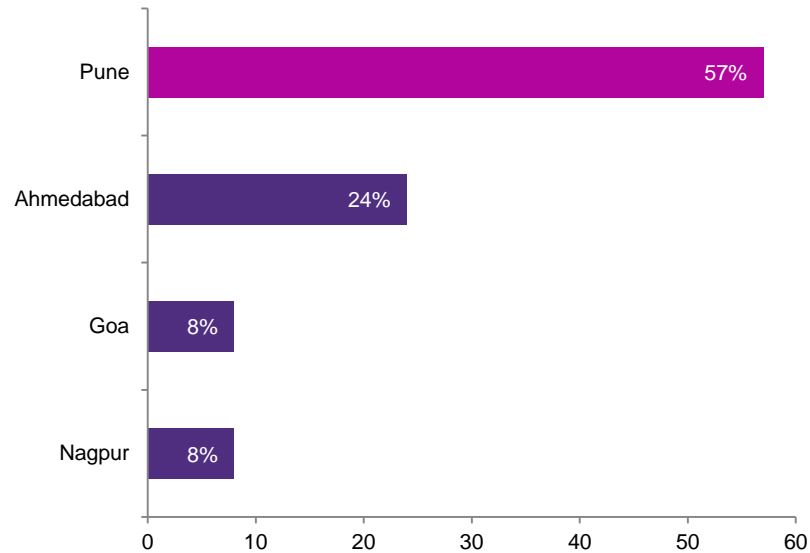
Pune has emerged as a major market for middle level housing units, and has also been witnessing significant residential growth along its IT and manufacturing hubs. In order to cater to enhanced consumer expectations, the city has also been witnessing growth in gated communities offering advanced lifestyle features. Close proximity to the financial capital and rapidly moving infrastructure have further contributed to making Pune one of the most sought-after destinations in the country today. Witnessing the vast inherent potential of growth of the city, a whole lot of premium developers from nearby cities are also launching new projects in the city.

## **Recent trends**

What constitutes sound corporate governance will evolve in the Real estate in Pune has grown more rapidly and to higher levels than in most other Indian cities. The rates have multiplied in almost all parts of the city, and the real estate in the suburbs and neighbouring areas have been getting absorbed at a rapid pace. Pune and its outlying localities including Hinjewadi, Kharadi, Hadapsar, Aundh and Wakad are very much under the spotlight.

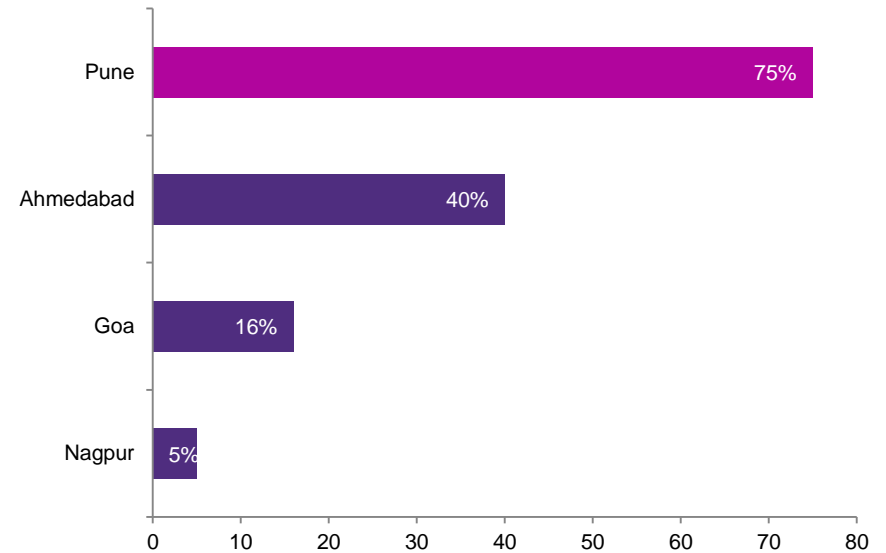
# Market view - Pune

Which is the most attractive emerging real estate market in the Western India, in residential segment?



**57%** Pune

Which is the most attractive emerging real estate market in the Western India, in commercial segment?



**75%** Pune

With a view to figure out trends in the Western region real estate space, Grant Thornton India LLP conducted a survey covering real estate professionals, prospective investors and end-users from across the region. The response from the participants has been collated as above.

# Investment opportunities in Pune

Buoyed by the rapid pace of growth of its IT/ITeS and manufacturing sectors, Pune real estate market continues to witness healthy infusion of new launches in the residential real estate space. As per a recent report by Knight Frank, the city has witnessed the launch of almost 130,000 units since 2009 and has recorded a vacancy level of nearly 21% which is relatively good as compared to the megacities including Mumbai and NCR, which continue to witness vacancies in the range of 30%. The high migrant influx offers a robust market for rental property which is cited as the main reason for the market witnessing capital appreciations to the tune of 2-13% in the mid-end segment across various micro markets and 2-7% in the high-end segment during Q3 of 2012.

The influx of Indian and international students to the city continues to further drive the demand for residential property. Areas including Aundh, Camp, Senapati Bapat Road, and Koregaon Park are high on demand owing to the diversified industries entering the city. In recent times, areas including FC Road, Law College Road, Kothrud in Western corridor and Hinjewadi IT Park have also been growing in an overwhelming manner. At a time when prime office space absorption decreased by 14% q-o-q across the key markets, Pune recorded a stable demand for office space in the city and suburbs, together with marginal rental appreciation of 2-3%, during the July-September 2012 quarter.

A large proportion of residential projects are coming up in the external fringes of the city including the eastern and western peripheral locations. This has ensured consistent supply of new launches resulting in minimal correction in property prices. A strong end-user driven market which has been recording steady absorption of units has been the key reason behind the emergence of the city as a preferred destination for affordable housing. As per Knight Frank India, 61% of the under construction projects in the city are targeted towards homebuyers that have shown a marked appetite for product priced within a budget of Rs 5 million.

The preference of the city as an affordable housing destination is also evident from the fact that of the total units absorbed in the city during the July-September 2012 quarter, 58% have been in the affordable and mid-segment housing segment. Besides, the city is also consistently recording a steady demand for high-end luxury houses, premium category apartments, deluxe villas, and housing complexes. Equipped with international standard amenities and lifestyle, these super-premium luxury homes are primarily being booked by the NRI (Non-resident Indian) investors.



# Investment opportunities in Pune

## Investment proposition

The booming IT sector, industrial growth and rise in disposable income are driving the real estate demand in Pune. With the IT-BPO revenues of India expected to touch US\$130 billion by FY2015, the real estate growth in Pune is assumed to continue unabated. The NASSCOM Strategic Review 2011 report also states that the Indian IT-BPO industry will create about 14.3 million employment opportunities by FY 2015, which would provide an additional boost to the real estate growth in the city. Besides, the growth momentum of the real estate sector is expected to accelerate with a number of automobile companies planning to expand their manufacturing operations to the Chakan region of the city.

Steady demand, together with the affordability of the market and a consistent influx of new launches are helping to maintain the momentum of real estate activity in the city. The Pune market continues to witness good traction, and accounts for 25% of the cumulative launches in the country since January 2012.

The real estate market of Pune began to witness heightened investment activity from 2005 with the opening of the sector to FDI (Foreign Direct Investment) when most of the funds were largely based out of the financial capital of the country – Mumbai. According to the property consultants Jones Lang LaSalle, Pune recorded approximately US\$800 million inflow of PE (Private Equity) funds until December 2011. Over a span of five years, the city recorded around 32 major transactions via both foreign and domestic investors. Of the various investment options, residential real estate segment clocked the maximum investment, supplemented by investments in SEZs, industrial parks and mixed-use townships till mid-2008.

Over a span of five years, East Pune, which accounts for the highest proportion of IT/ITEs industries in the city, has recorded around 61% of total PE investments cumulatively witnessed by Pune. Residential as well as retail projects in this area have served as a magnet for PE investments into Pune's real estate sector during the period. The city has witnessed some of the most prominent PE deals of the year, including the purchase of Paranjape Schemes' SEZ by Infrastructure Development Finance Corporation (IDFC).

As part of the deal, the PE arm of IDFC is set to purchase the SEZ developed by Paranjape Schemes for IT/ITEs companies with an investment to the tune of 600 crore. Located in Pune's Hinjewadi district, the IT SEZ spanning an area of 1.48 million square feet is a sprawling InfoTech park housing some of the most noteworthy companies in the IT/ITEs sector. Another significant PE deal in Pune's real estate space is the Rs 40 crore investment by ASK Property Investment Advisors, the real estate arm of the ASK Group.





# Market view

For what purpose you may like to buy residential real estate in Pune?



■ Self-use: 50%      ■ Short-term investment: 22%  
■ Long-term investment: 28%

**50%** Self-use

What type of residential real estate would you prefer to buy?



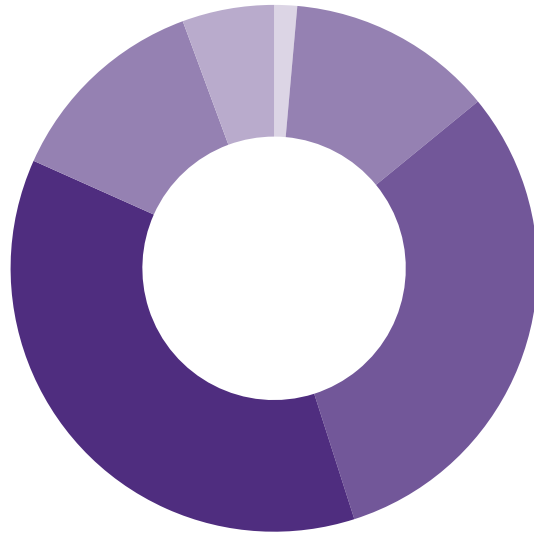
■ Apartment: 55%      ■ Builder floor: 27%  
■ Plot: 18%      ■ Bungalow/ villa: 0%

**55%** Apartment

With a view to figure out trends in the real estate space in Pune, Grant Thornton India LLP conducted a survey covering real estate professionals, prospective investors and end-users in Pune. The response from the participants has been collated as above.

# Market view

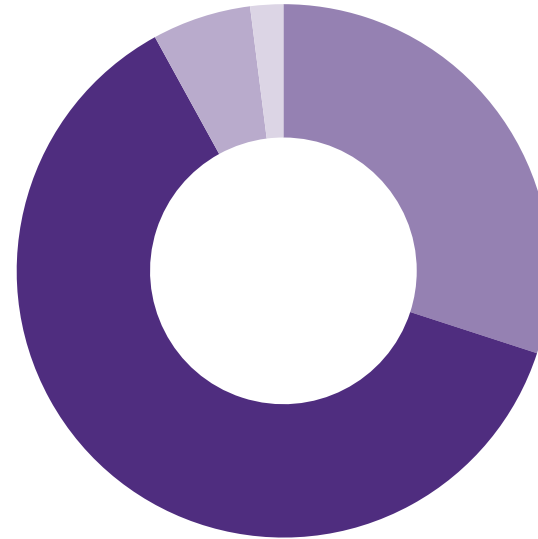
Which area will you prefer the most for buying residential real estate in Pune?



■ West Pune: 37%      ■ East Pune: 31%  
■ South Pune: 13%      ■ Central Pune: 13%  
■ Outskirts: 6%      ■ North Pune: 1%

**37%** West Pune

What will be the preferred price bracket?



■ 40-60 lakh: 62%      ■ 30-40 lakh: 30%  
■ 60-90 lakh: 6%      ■ Above Rs 1 Crore: 2%

**62%** 40-60 lakh

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# Investment opportunities in Pune

Residential properties in Pune have also become a preferred asset class among expats in recent times. In order to provide an additional push to the demand of residential units among NRIs seeking residential property investment opportunities in India, the government has been proactively making an array of policy changes. Recent policies including the ones allowing expats to invest in India-based properties via funds in NRE/FCNR/NRO accounts maintained in India, or through remittance of funds through normal banking channels further underscore the government's commitment to route increased NRI investments into the country.

Real estate continues to remain one of the most preferred choices for investment among High Net-worth Individuals (HNIs) seeking to invest in safer fixed-income products. Besides, HNIs are also preferred by real estate developers for raising working capital funds through financial institutions. A number of ultra-HNIs have also been locking a high proportion of their investment in pre-leased commercial properties offering good rental yields.

Pune real estate market will continue to remain robust with a slew of new launches, innovative projects, quicker approvals and consistent demand from homebuyers. These factors, together with the upcoming supply of projects at affordable prices, are expected to outpace the rate of absorption of the upcoming projects resulting in a steady real estate inventory in Pune. During the April-June 2012 quarter, Pune recorded the maximum increase in prices of residential properties among the 16 cities surveyed by the National Housing Bank (NHB). Pune recorded an increasing trend in the range of 10.5% in April-June 2012 quarter against the previous quarter.

A recent report by ASK Property Investment Advisers states that the outlook of the Pune real estate market remains bright, with property prices expected to clock an upward trend with a demand of 50,000 units in 2012. The report also states that the demand of residential units in the city will rise in the near future, driven mainly by factors including renewal in the pace of economic activity and migratory influx. Further, the city is also poised to witness a sustained demand of affordable housing units in the range of Rs 45-60 lakh. The overall sentiment of the sector is optimistic, evident from the fact that the prices of residential units in the city escalated by 16% during Q1 of 2012, and are expected to witness an upward trend in the forthcoming quarters as well.



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# Investment opportunities in Pune

Relative to the first quarter of 2011, property prices in Pune region including Baner, Hinjewadi and Kothrud appreciated by 30%, 23% and 22%, respectively during the first quarter of 2012. Localities including BT Kawade Road, Chinchwad, Kondhwa and Koregaon Park recorded an appreciation in capital values to the tune of 8% q-o-q. Further, the city has witnessed a drastic improvement in the sell-out ratio of projects in recent times. With a sell-out ratio of projects in the range of 78% during the first six months of 2011 as compared to 2010, the city tops among the preference list of real estate developers owing to its potential to offer a full recovery of the cost of construction of the project. The consistent health of the demand from end-users has been driving increased investor interest in Pune resulting in enhanced PE investing in projects in the city.

With the service sector recording consistent growth, the office real estate demand is expected to offset the sizable availability of ready or near-ready supply in the forthcoming quarters. Further, the city is also expected to witness a steady demand for more residential units and commercial centres leading to a vigorous growth in real estate activity in Pune to cater to the rising demand for quality housing. Favourable demographics will drive the demand for real estate in the city which will, in turn, galvanise the investment in real estate development in Pune.

The city outskirts including Talegaon, industrial belt of PCMC, Maval and Chakan as well as IT Park of Hinjewadi have also been consistently witnessing significant real estate developments in recent times. The increasing local demand has skewed the capital values of real estate prices in the localities, making them a favoured investment destination among investors. Further, Talegaon is also swiftly emerging as a favoured location for weekend homes which has led to increased interest in the region among the expats seeking avenues for investment. Currently, there also exists a ceiling in the property appreciation in the regions making them a preferred choice among homebuyers seeking affordable homes. The areas are also set to witness vigorous commercial developments in the coming quarters.



# Investment opportunities in Pune

## Ranking with regards to registering property

Indicator	India	South Asia	OECD
Procedures (number)	5	6	5
Time (days)	44	100	26
Cost (% of property value)	7.3	7.2	4.5

Source: The World Bank

## Procedures, time and associated costs for registering property

S.no	Procedure	Time to complete	Associated cost
1	Check for encumbrances at the office of Sub-Registrar of Assurance	5 days	Rs 10,000
2	Preparation of the final sale deed by the purchaser's lawyer	7 days	Rs 22,000-25,000
3	Payment of Stamp Duty on the final Sale Deed through franking at the designated bank	1 day	5% of property value
4	Execute final sale deed and submit documents to the local office of the Sub-Registrar of Assurances	1 day	% of market value of the property (Maximum Rs 30,000) + Rs 20 per page of final sale deed for scanning charges (paid in cash)
5	Apply to the Land & Survey Office for mutation of the tile of the property	30 days	Rs 450 (Application fee of Rs 100; stamp duty on the Indemnity Bond of Rs 200, stamp duty of Rs 100 on the Affidavit in the prescribed form and notary fees of Rs 50)

Source: The World Bank

# News update: Real estate sector

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# News update: Real estate sector

## **Accounting standards for the real estate sector to be rolled-out soon**

Faced with the challenge to bring about uniformity in reporting of financial results, the Revenue department is planning to develop accounting standards for the real estate sector. The new accounting standard for revenue recognition in the real estate sector for tax purposes will enable the Central Board of Direct Taxes (CBDT) to ascertain the revenue from projects that are under construction.

## **SVAGRIHA conceptualised for buildings lesser than 2,500 square metres**

With a view to enhance of focus of energy efficiency for buildings to also include smaller buildings, whether residential or commercial, GRIHA (Green Rating for Integrated Habitat Assessment) has conceptualised SVAGRIHA (Small Versatile Affordable GRIHA) that will enable buildings that are less than 2,500 square metres to reduce their carbon footprint. The project, which has been launched by The Energy and Resources Institute (TERI), is a focused programme that will evaluate buildings on 14 parameters. The cost of registration and evaluation for the projects for getting a SVAGRIHA will be between Rs 60000 and Rs 100000.

The implementation of the new building code will enable the simplification of the complex system of analysis for smaller buildings, while bringing more builders of tier 2 and 3 towns under the green rating umbrella. For getting a SVAGRIHA rating, builders need to register their projects with ADaRSH (Association for Development and Research of Sustainable Habitats), and submit calculations that determine possible energy efficient methods, drawings and other documents as required. Post submission of the report, a review will be carried out under SVAGRIHA parameters, after which a site visit will be conducted.

Thereafter, the building will be assessed by a GRIHA certified evaluator who will award the rating based on his assessment.

## **Government plans to declare housing as an industry**

The Government is planning several initiatives to address the challenge of urban housing shortage for the poor, including amending the archaic Rent Control Act and declaring the sector an industry, and launching nation-wide support to municipalities to build rental homes. Housing and Urban Poverty Alleviation Ministry plans to undertake these initiatives to provide support states including Uttar Pradesh, Maharashtra, West Bengal, Andhra Pradesh, Tamil Nadu, Bihar and Rajasthan under Rajiv Awas Yojana to go in for rental housing for the poor.

Besides, the government in planning to make housing a part of infrastructure sector or declare it as an industry, or an industry. This will pave way for bringing vacant houses into the housing market through taxation and incentivise policies and incentivising construction activity for the poor.

## **RBI eases norms for NRIs seeking to invest in real estate sector**

With its recent notification to relax the norms of operation of joint accounts considerably, the RBI has paved way for NRIs to indulge in residential or commercial property investment in India. Further, the RBI has also clarified the provisions of the Liberalised Remittance Scheme wherein income and sale proceeds of assets held abroad need not be repatriated to India and can be retained and invested outside India. Besides increasing increase remittances by permitting NRIs to hold joint accounts with Indian residents, the proposal also permits resident relative to operate the account as a power of attorney holder.

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# News update: Real estate sector

## **Government withdraws its proposal to levy 1% TDS (tax deduction at source) on transfer of immovable property**

The Finance Ministry revoked the imposition of 1% TDS on transfer of immovable property for transactions where sale value exceeds Rs.50 lakh in urban centres and Rs. 20 lakh in other areas, proposed in the Union Budget 2012-13. The proposal, which was meant to deter the generation and use of unaccounted money, was to be made effective from 01 October 2012.

## **Land purchase laws to be amended**

In an attempt to address the issues of illegal transactions and evasion of taxes, the Government is planning to amend two key land purchase laws including the Benami Transactions (Prohibitions of the Right to Recover Property) Act, 1989 and SEZ Act, 2005. As a part of the project to amend the Benami Transactions (Prohibitions of the Right to Recover Property) Act, 1989, the government is conducting surveys on the status of 'bhoodan' land, common property resources in villages and settlement operations in tribal sub-plan areas.

By amending the current Benami Transactions (Prohibitions of the Right to Recover Property) Act, the government intends to make it more effective at monitoring evasion of ceiling laws through fraudulent land transaction. Further, the government expects the amended SEZ Act, 2005 to be more effective in tackling exemptions on diversion of land in Scheduled Areas as well as transfers of common property and agricultural land for SEZ purposes.

## **New Development Plan for Pune approved**

The new Development Plan for the old Pune city area was approved by the City Improvement Committee (CIC) of the Pune Municipal Corporation (PMC). The new Plan spans 2007 to 2027 and contains special provisions for the metro rail project, schemes for housing for the poor, a transport hub, and cluster development of old derelict wadas. The Plan for the old city area also proposes additional FSI for hotels having four star or more. Ready reckoner approach will be used to set the rate for the additional FSI.

## **Maharashtra Government to draft a new policy on urbanisation**

The Maharashtra Government is currently drafting a comprehensive policy regarding urbanisation, which will pave way for putting a curb on illegal constructions in the Gram Panchayat jurisdiction on the outskirts of cities.

## **Higher FSI proposed by Maharashtra Government for private hospitals**

A 150% increase in FSI for all private hospitals located in the congested areas of Nagpur city was recently proposed by the Maharashtra Government.

## **Government planning to set up a retail regulator**

In order to check anti-competitive practices in the retail sector, the Government is planning to establish an independent regulatory body. The pan-India retail regulator would oversee the occurrence of anti-competitive practices such as predatory pricing, and periodically review the status of employment in the sector following infusion of FDI.



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# News update: Real estate sector

## **Maharashtra State Government hikes township FSI**

In an attempt to encourage creation of new economic hubs, the Maharashtra State Government has categorised businesses centered around education, hospitality, healthcare, and entertainment, among other activities as economic activity. Further, the State Government has also decided to mandate township projects to set aside up to one-fourth of the land for economic activity. Besides, the government has hiked the available FSI in the range from 1.5 to 1.7 from 1 for the developable areas in the Mumbai Metropolitan Region (MMR).

The FSI has been hiked to 1.5 for townships spread across 40-100 hectares, 1.6 for 100-200 hectares and 1.7 for townships above 200 hectares. The government has also barred any township development in ecologically sensitive zones, and hiked FSI for development of other 'green' zones existing alongside transport corridors.

A notification was issued by the government mandating all projects being constructed in the 26 municipal corporations and all municipal councils in Maharashtra over 2,000 square metres of land to earmark 20% of the plot or constructed space for smaller sized affordable housing. The notification further states that a minimum of 20% of land will be handed over to the Maharashtra Housing and Area Development Authority (MHADA) for projects involving sub-division of the 2,000 square metres of land.

Besides, it is mandatory for the developer to sell 20% of the built-up area at the construction cost for developing affordable houses for the economically weaker sections (EWS) and the low-income groups (LIG) in case the layout of the land exceeds 2,000 square metres.

MHADA or any other designated public authority will purchase the tract of reserved land at affordable rates and use them for constructing houses having a carpet area within the range 27.88-45 square metres. The affordable housing will be included in the floor space index (FSI) computation in order to compensate the developer for the land cost. In case, MHADA or the housing board fails to purchase the plot or flats within three months, the developer can sell them in the open market.

## **Maharashtra government imposes 5% VAT on flat sales with retrospective effect**

Following the order of the Supreme Court in the case of K Raheja versus Karnataka government, the Maharashtra State Government imposed Value Added Tax (VAT) at the rate of 5% of the value of flats, shops and bungalows on buyers of under-construction property in Maharashtra, who had made the transaction between 20 June 2006 and 31 March 2010.



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The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry managed organisation, playing a proactive role in India's development process. Founded over 117 years ago, it is India's premier business association, with a direct membership of over 7000 organisations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 companies from around 400 national and regional sectoral associations.

CII catalyses change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programmes. Partnerships with over 120 NGOs across the country carry forward our initiatives in integrated and inclusive development, which include health, education, livelihood, diversity management, skill development and water, to name a few.

The CII Theme for 2012-13, "Reviving Economic Growth: Reforms and Governance", accords top priority to restoring the growth trajectory of the nation, while building Global Competitiveness, Inclusivity and Sustainability. Towards this, CII advocacy will focus on structural reforms, both at the Centre and in the States, and effective governance, while taking efforts and initiatives in Affirmative Action, Skill Development, and International Engagement to the next level.

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**Reach us via our membership helpline:**

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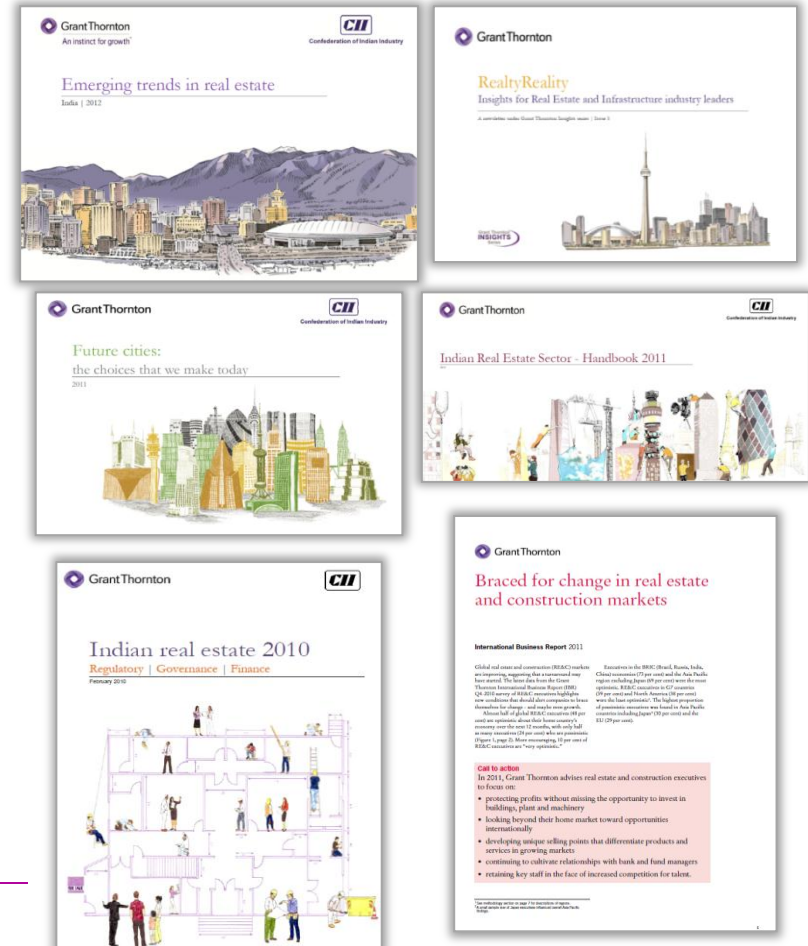
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## Our Real Estate publications

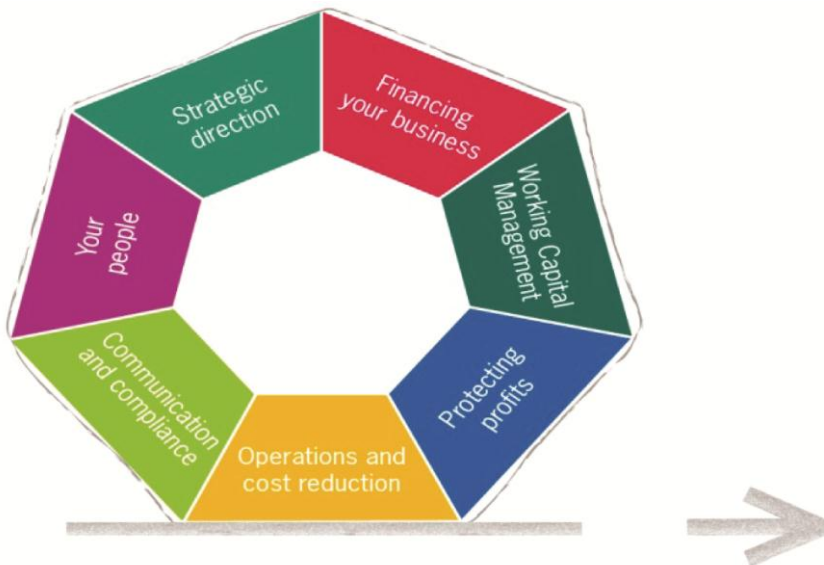


# Solutions for real estate companies

## Our real estate practice

Real estate is a complex business. Owing to its capital intensive nature, any turbulence in the economic and business environment can affect a real estate business in a number of ways.

With its depth of knowledge and global experience, Grant Thornton India can assist you in mitigating these inherent risks. At the same time, we can help you identify and leverage potential opportunities as well. Assurance, tax and advisory services are just the beginning of our suite of services.



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- analysing funding requirements
- preparing submissions to financiers
- benchmarking terms and pricing
- considering alternative sources

## Working capital management

- managing your cash
- forecasting and re-forecasting
- optimising tax cash flow savings
- improving management information

## Protecting profits

- product portfolio analysis
- optimising pricing strategy
- enhancing terms of trade
- identifying overhead savings

## Operations and cost reduction

- establishing cost reduction programmes
- improving supply chain
- enhancing operational efficiency
- outsourcing back office functions

## Communication and compliance

- advising on financial reporting requirements
- clarifying directors' responsibilities
- mitigating fraud risk
- evaluating and designing controls

## Human capital management

- optimising pension and benefit schemes
- retaining the right staff
- devising tax efficient packages
- enhancing reward packages

## Strategic direction

- benchmarking against competitors
- entering new markets
- identifying acquisition opportunities
- reviewing business plans

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