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**Means of Finance / Source of Funds
Under Real Estate Regulation
and Development Act (RERA) 2016**

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MEANS OF FINANCE / SOURCE OF FUNDS UNDER REAL ESTATE REGULATION AND DEVELOPMENT ACT (RERA) 2016



CA. Vinay Thyagaraj

The Real Estate (Regulation and Development) Act 2016 (RERA) is a central law aimed at regulating and Development of the Indian real estate sector and safeguarding the interests of home buyers. The Act lays down strict norms for the promoters (builders and developers) to ensure transparency and accountability in their transactions with Allottees (customers and other stakeholders).

Real estate industry is considered as a **capital-intensive industry** as it requires significant investments of money in order purchasing land for the project, for obtaining approvals and NOC's from the statutory authorities, construction of the building, making infrastructure, facilities, amenities development. The large initial costs may be for the acquisition of project land, approvals etc. These initial and large investments can make it challenging for new entrants to the industry to compete with established players who have more financial resources. Additionally, the long-term nature of real estate investments and the uncertainty surrounding future market conditions can also make them riskier than other types of investments, further emphasizing the need for large amounts of capital. Additionally, real estate projects have a **long lifespan**, so significant investments are often necessary to ensure **profitability**. The cost of real estate projects can be substantial, so businesses in this industry require substantial capital investments to finance for the completion of the project irrespective of the market demand or circumstances.

As we all aware, post implementation of RERA, every promoter shall declare the End date / completion date <https://taxguru.in/corporate-law/importance-date-completion-date-real-estate-regulation-development-act-2016.html> of the project at the Application for grant of registration of RERA number. Promoter is allowed to market, enter into agreement etc., based on the end date / completion date of the Project. E.g., RERA registration certificate validity of a project is 31.12.2025, the promoter cannot mention the completion date/possession date in the Agreement of sale beyond 31.12.2025 unless the promoter obtains the extension as per the RERA Act 2016.

In order to achieve the completion of the development works of the project within the end date / committed date,

the promoter shall have the sufficient funds / cash flow without hindrances, failing which the real estate project development and possession may be delayed. In order to achieve the completion of development as per the schedule of plan/time (as submitted during RERA registration) the RERA authorities may ask the promoter's to submit the details of source of funds or means of finance along with the application for grant of RERA Registration.

Means of finance or Source of funds may include the following –

- a. Promoters own funds – capital / equity investments –
 - a. Promoter contributions are made considering Promoter's capacity to infuse capital assessed with supporting documents like Equity capital contribution, availability of reserves & surplus along with composition of liquid and bankable assets reflecting the solvency of the promoter/entity. Further, the individual, partner's and director's capacity to infuse necessary capital should also be assessed and documents like past Income Tax Returns, partnership shares in another concern/s, etc. shall be considered as supporting documents for preparation Report on MoF
- b. Borrowings – loans, debentures etc –
 - a. Assessment of requirement, quantum, timing and cost of borrowed funds be carried out in the light of borrowing plan for computation of Institutional Loans / Debentures etc. When a real estate project is to be funded by institutional loan, documents reflecting promoter's sanction letter and tie ups with Banks / Financial institutions should be considered while submitting data with the Authorities. When institutional loan is backed by collateral other than the project assets, repayment of the loans can go beyond project completion date.
- c. Realisation from sale of units in the project / Customer Receipts
 - a. Promoter formulates the marketing and sales plan for the real estate project depicting quarterly sales

and Projection of Receipts from allottees. Adequate emphasis be made on demand of projects of similar type, scale, segment in the area of the project. Further, such projections shall also be in sync with projected Construction stages of the project leading to percentage completion-based receipts from the allottees. Booking trends of past projects of the promoter can be considered for sales forecast of units in project being undertaken by a particular promoter/group

d. Any other sources –

- a. Means of Financing Plan of the Project should be cash-positive in all quarters to ensure liquidity on hand. Computations of cash inflows in accordance with the guidance provided in above paragraphs would require the Promoter to opt for an appropriate financing mix for the project considering project and promoter specific circumstances. For Capital strong promoter/entity reliance on borrowed funds may not be required. Whereas for promoters not having proven track record for borrowed fund raising, wherewithal for own capital infusion has to be demonstrated. Reliance on allottee contributions coupled with contractual obligations for payments towards land as per development/purchase agreement requires framing of the optimal financing mix, which has to demonstrate necessary liquidity for servicing of these scheduled obligations, for which additional capital infusion or contractual deferment of payments towards land dues may be considered so as to ensure uninterrupted construction of the project. The need for capital infusion may also be substituted by borrowed financing where the promoter has institutional arrangement or proven track record for the same. Empirical data with authority reveals that the principal cause of slow construction progress of registered projects is liquidity crunch and absence of contingency mitigation plan with the promoter. Requirement for framing the financial plan for project execution at the time of registration is aimed at making available a well thought plan with the promoter for ensuring necessary liquidity with promoter for smooth execution of construction activities in a time bound manner so that he can fulfil his promise of Delivery of Real Estate by Project End Date.

Few state RERA Authorities have notified the formats of means of finance and CA certificate formats.

Statement showing cash flow for the real estate project from time to time (receipt and payments) may be insisted by the RERA Authorities as part of the documents. The promoters

shall provide the information / statement showing –

- a. Cost incurred towards Land and construction till date of application
- b. Cost estimated to be incurred post RERA registration
 - a. Such information may be provided quarter wise / Half yearly or yearly

Gujarat RERA on Means of Finance

Gujarat RERA in its circular on Means of Finance mentions - Objective preparation of Report of MoF encompassing this guidance will surely contribute to project executions being well-planned and well-managed, protecting interests of all stakeholders and contributing to the thriving real estate sector in the State of Gujarat.

Further Gujarat RERA Authorities have made it mandatory to issue detailed Means of Finance Report in the manner and format as notified for the Projects having estimated cost of the project Rs.25 Crores and above (vide circular no 21/2020 dated 14th Feb 2020)

Gujarat RERA mandates the Chartered Accountant Certificate certifying the Means of Finance and the Certificate and shall in accordance with the "Report on Examination of Prospective Financial Information" as per "Standard on Assurance Engagement 3400" issued by the Institute of Chartered Accountants of India. He should obtain sufficient appropriate evidence as to whether:

- A. management's best-estimate assumptions on which, the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information;
- B. the prospective financial information is properly prepared on the basis of the assumptions
- C. the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best estimate assumptions or hypothetical assumptions; and
- D. the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles. Means of finance or Source of funds may include the following –

MahaRERA on Means of Finance

MahaRERA has included the following Table as part of the Chartered Accountants Certificate -

Sl No	Particulars	Estimated (At time of registration proposed and indicative) In Rs	Proposed/ Estimated As on the date of the certificate In Rs	Actual (As in the date of certificate) In Rs
1	Own Funds			
2	Total Borrowed funds (Secured) - Drawdown availed till date			
3	Total Borrowed funds (unSecured) Drawdown availed till date			
4	Customers Receipts used for the project			
	TOTAL			

Further Section 4 of the RERA Act and Rule 3(b) of Karnataka RERA Rules 2017 mandates the promoter to submit annual report including audited profit and loss account, balance sheet, cash flow statement, directors report and the auditors report of the promoter for the immediately preceding three financial years; and where annual report is not available, the audited profit and loss account, balance sheet, cash flow statement and the auditor report of the promoter for the immediately preceding three financial years.


The RERA Authorities review the financial statements of the promoters and assess whether sufficient funds / assets are available with the promoters to complete the project within the time. If the authority is not satisfied with the sufficiency of funds as per financial statements, a question or query may be raised before issuance of RERA Registration. The promoter shall reply to the query with the explanation and details substantiating that the promoter will arrange sufficient funds to complete the project.

As part of the reply, the promoter shall furnish the means of finance statement. Such report shall consider estimated cost <https://taxguru.in/corporate-law/rera-estimated-cost-real-estate-project.html> of the project and availability of funds mode of raising funds to complete the project.

In view of the above, it is important to understand the concept of Means of Finance or Source of Funds for the real estate project and submit the details while filing the Application for Grant of RERA Registration.

Source: Gujrat RERA and Maharashtra RERA Websites

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