



**DELHI SCHOOL OF BUSINESS**

By Vivekananda Institute of Professional Studies-TC

# **LEASE RENTAL DISCOUNTING**

BY

**KHUSHI GOEL**

A report submitted in partial fulfilment of

PGDM program 2023-25

Summer Internship Programme in

**Parsvnath Developers Ltd.**

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## Declaration

I hereby declare that this project report Lease Rental Discounting is my own work, to the best of my knowledge and belief. It contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree or diploma of any other institute, except where due knowledge has been made in the text.

Signature

Name – khushi goel

Roll no. - 202311077

2023-25

Date – 6<sup>th</sup> July 2024



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## **Certificate from Company Guide**

This is to certify that Khushi Goel enrolment no. 202311077, a student of PGDM from Delhi School of Business- VIPS TC has done her summer training at Parsvnath Developers Ltd., Shahdara in finance department from 27<sup>th</sup> May 2024 to 6<sup>th</sup> July 2024.

The project work entitled Lease Rental Discounting embodies the original work done by Khushi Goel during her summer project training period.

Signature

Name - Mr. Pankaj Aggarwal

Designation – Vice President Finance



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## **Certificate from Faculty Guide**

This is to certify that work Lease Rental Discounting is a piece of work done by Khushi Goel under my guidance and supervision for the partial fulfilment of degree of PGDM at Delhi School of Business- VIPS TC.

To the best of my knowledge and belief this study embodies the work of the candidate. This requirement of the rules and regulations relating to the summer internship of the institute, is up to the standard both in respect of content and language for being referred to the examiner.

Signature

Name

Designation

Date

# Job Description

I have completed my summer internship as a practical trainee in finance department of Parsvnath Developers Limited under Mr. Pankaj Aggarwal, vice president finance.

## Job description

1. Vouching
2. Different calculations like monthly rentals, EMI, commissions, interest payments
3. LRD proposal its benefits, risk involved.
4. Bank Reconciliations/CC A/c Interest calculation.

The background of the slide is a photograph of a city street. In the center, a tall, modern skyscraper with a glass facade rises into a blue sky with light, wispy clouds. To the left and right of the skyscraper are other buildings, some with more traditional architectural styles. In the foreground, there are lush green trees. The overall scene is bright and clear.

**PARSVNATH**

Committed to build better world

# Lease Rental Discounting Project Report

# Executive Summary

## Type of loan

- Various types of loan are available as per the Project requirement Like Mortgage loan or the lease rental discounting loan
- Proper analysis of all the loans is made on various factors and then chosen the best one

## About lease rental discounting

Lease rental discounting is a tool to acquire loans from banks using rental receipts as collateral. The banks will examine long-term cashflow and provide the loan based on the exact amount. This loan is then payable by the rents promised.

## Major aspects for the loan:

- Value of your property
- Your capacity to repay
- Other assets you own
- Legality and technical aspects of your property

## We discussed various things in LRD

- Eligibility include being a resident or non-resident, having a property on rent, lease agreement. No loan is provided for under construction and vacant property.
- The risk involves tenant default, market fluctuations, and loan-to-value ratio
- Mitigation of risk by tenant screening, portfolio diversification, regular property valuation.



- Its procedure: select the bank, suitable to their requirements, gather necessary documents and at last visit the selected bank website and apply for such loan and submit documents as per bank's query.
- Various charges are charged by the bank like processing charges floating interest rate charges, CERSAI, commitment charges etc.

### Most important document

A lease agreement is a must for such loan which is between the tenant and the owner. This agreement includes the term and conditions of the tenant and the owner, the rental income, the mode of payment and the clause in case of any default.

### Analysis of rental income

- The company prepares the cash flow projections for the next ten years for the rental income on leased as well as unleased property.
- The expenses incurred for such income and the expenses like lease rental charges, maintenance charges or the GST payments are deducted to know the amount in hand.
- The outflow and inflow are subtracted to know the surplus/deficit with the activity.

### LRD loan amount

- The LRD loan is calculated keeping the base of property valuation and discounting the rental income to present value in total.
- Only 70%-80% of the total rental income is given as loan to have the cushion with the company.

### Interest rates

- The Bank offers different interest rate for every kind of loan. keeping in mind many factors.
- Banks consider repo rate provided by the RBI as a benchmark, its US federal Bank rate and the competitor's rate.

## Escrow account

In this loan an escrow account is opened with bank as it is the safest option. There is an escrow agreement between the bank, owner and the tenant

## EMI

- EMI is the structured repayment method that breaks down a larger amount into manageable monthly payments over a specified period. Timely payments increase the creditability and help access favourable interest rate.
- EMI is calculated using a formula.
- The rental income received is used to repay the loan amount in the form of EMI.

# Company description

Parsvnath Developers Ltd. is one of India's leading real estate developers, with a pan India presence.

## Vision

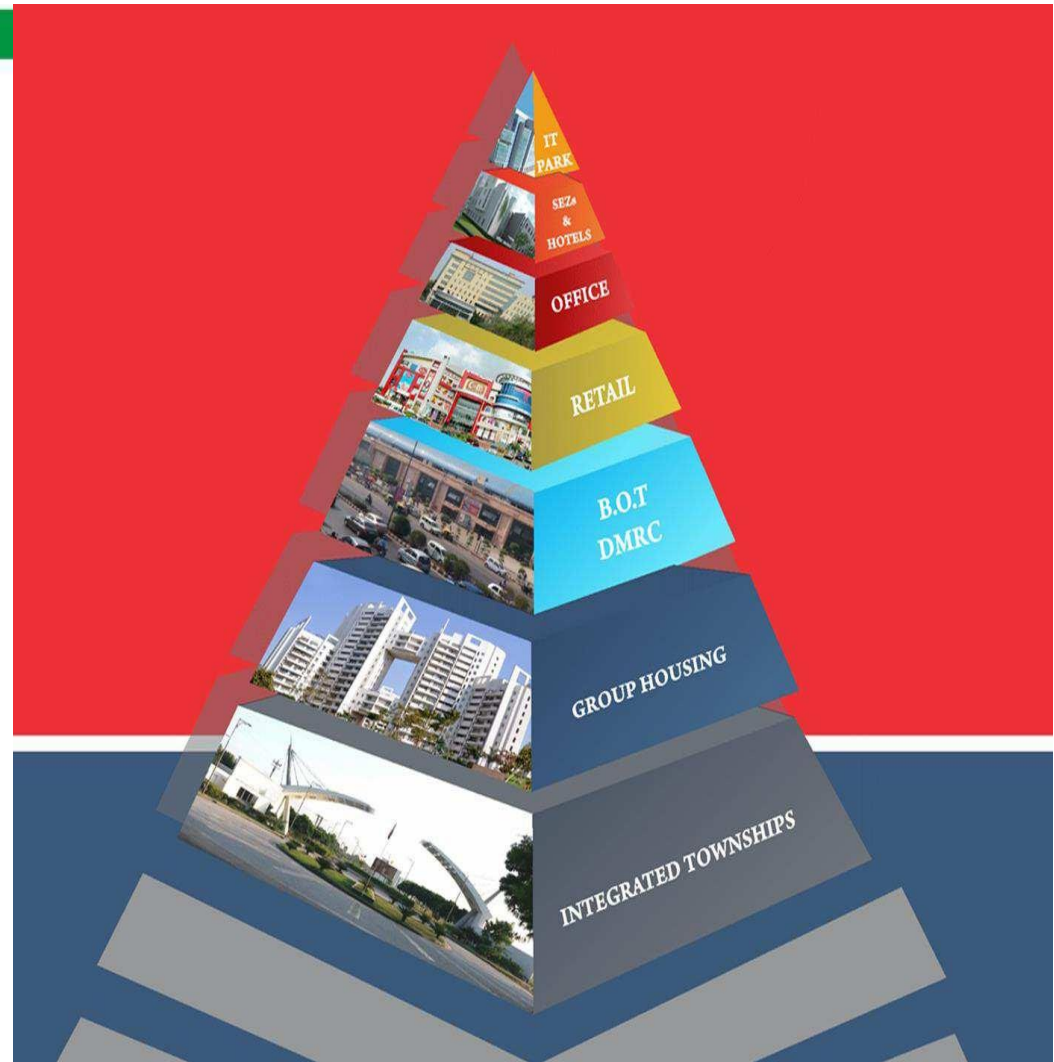
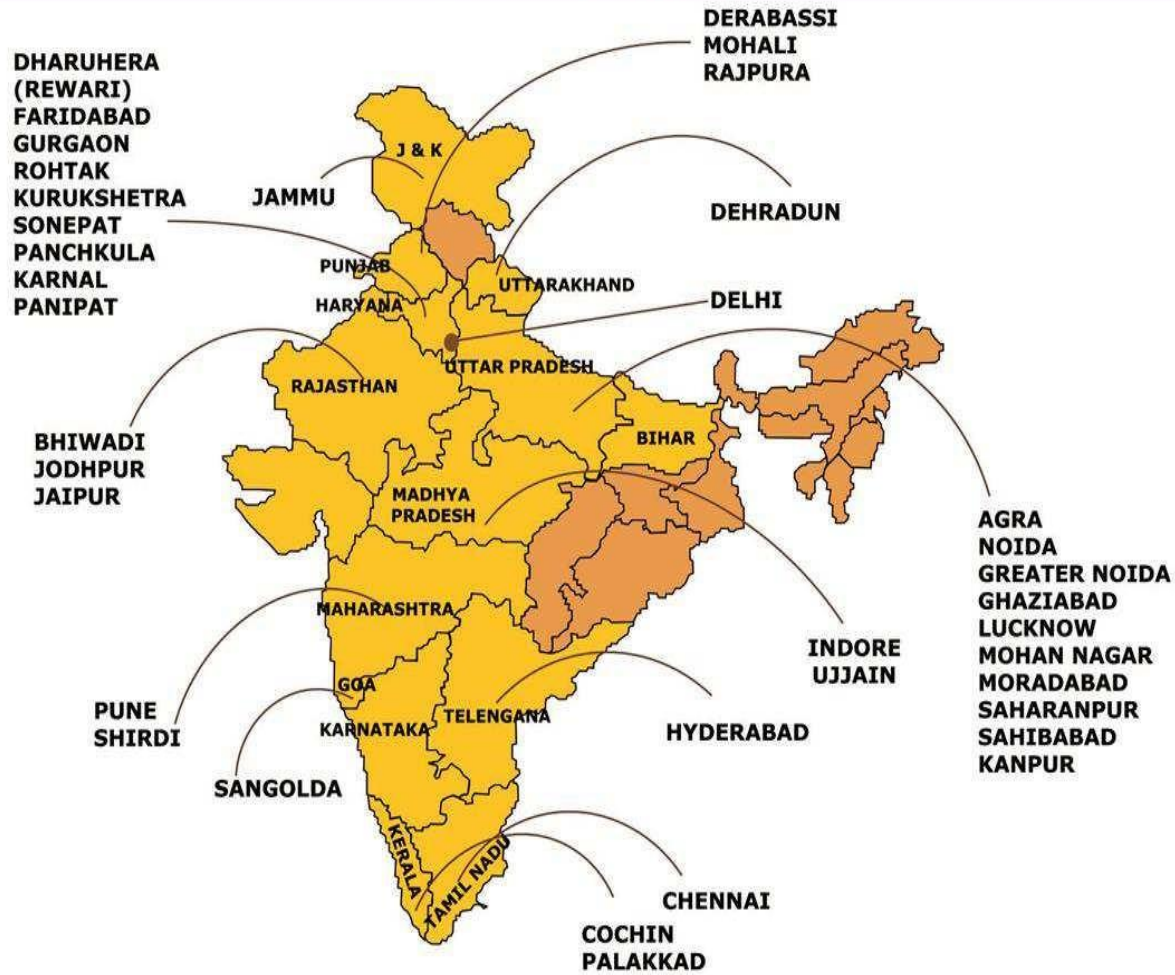
Building a better world. To envision, design and construct the most magnificent landmarks and edifices; to contribute tangibly in regional and national development by way of key infrastructure projects, and to protect and preserve the environment we live in.; to transform and uplift quality of living and lifestyle of each individual that comes in contact with us.

## Mission

- To cater to the real need of a growing population
- To set standards and improve our environment
- Offer a wide portfolio of international quality products that cater to different markets and segments
- To deliver value for money and excellent investment returns
- Take customer relationships and customer satisfaction to new levels
- To focus on strategic growth
- Evolve contemporary benchmarks in construction and marketing practices

Vertical

## Pan India Presence





# Analysis of Job

# Key Highlights of the Project

## ASSET

- It is Leased Based assets from DMRC on BOT concept
- For 30 Years Period, its period will be completed by Sep 2041.
- The Company has „Right of First Refusal“ after Sep 2041.
- Plot Area – 5 acres –approx.
- Leasable Area- 3.40 Lacs Sqft approx.
- Situated at Bhai Veer Singh Marg, Gole Market, New Delhi-110001

## PRIME LOCATION

- Located in New Delhi's **Central Business District**
- VIP & High security Zone
- 2 minute away from Central Arena

## DESIRED NEIGHBOURHOOD

- 5 minutes away to North & South Block, Central Government Ministries & Diplomatic Area
- Leading global MNCs all operate in close vicinity
- More than 10+ five-star hotels within 5 minutes driving distance
- Established social infrastructure including premium retail, fine dining, sports ,entertainment &

## EXCELLENT CONNECTIVITY

- Convenient access to Metro Stations, Airport Express Line, Rail and major arterial roads
- Frontage on 60 meter wide boulevard

## Key Highlights of the Project



### UNIQUE FEATURES

- Construction by L&T
- Designed to Meet Multi-National Corporate Requirements
- Spacious & flexible floor plates – 5,000 to 27,900 square feet available per floor
- New Grade A+ office towers with world-class technical specifications & materials palette

### PREMIUM GRADE A+ SPECS

- Panoramic View of New Delhi
- Sky & mezzanine terraces, exquisite landscaping, water features & modern art
- Environment Friendly & Pollution free Area
- „Green building“ in CBD – pre-certified LEED Silver (LEED Gold Targeted)
- Identical to International's Standard“s

### MAINTAINANCE

- Property maintained by International Organization „CBRE“



**CBRE**

### MANAGER

- Property managed by International Organization „HINES“



**Hines**

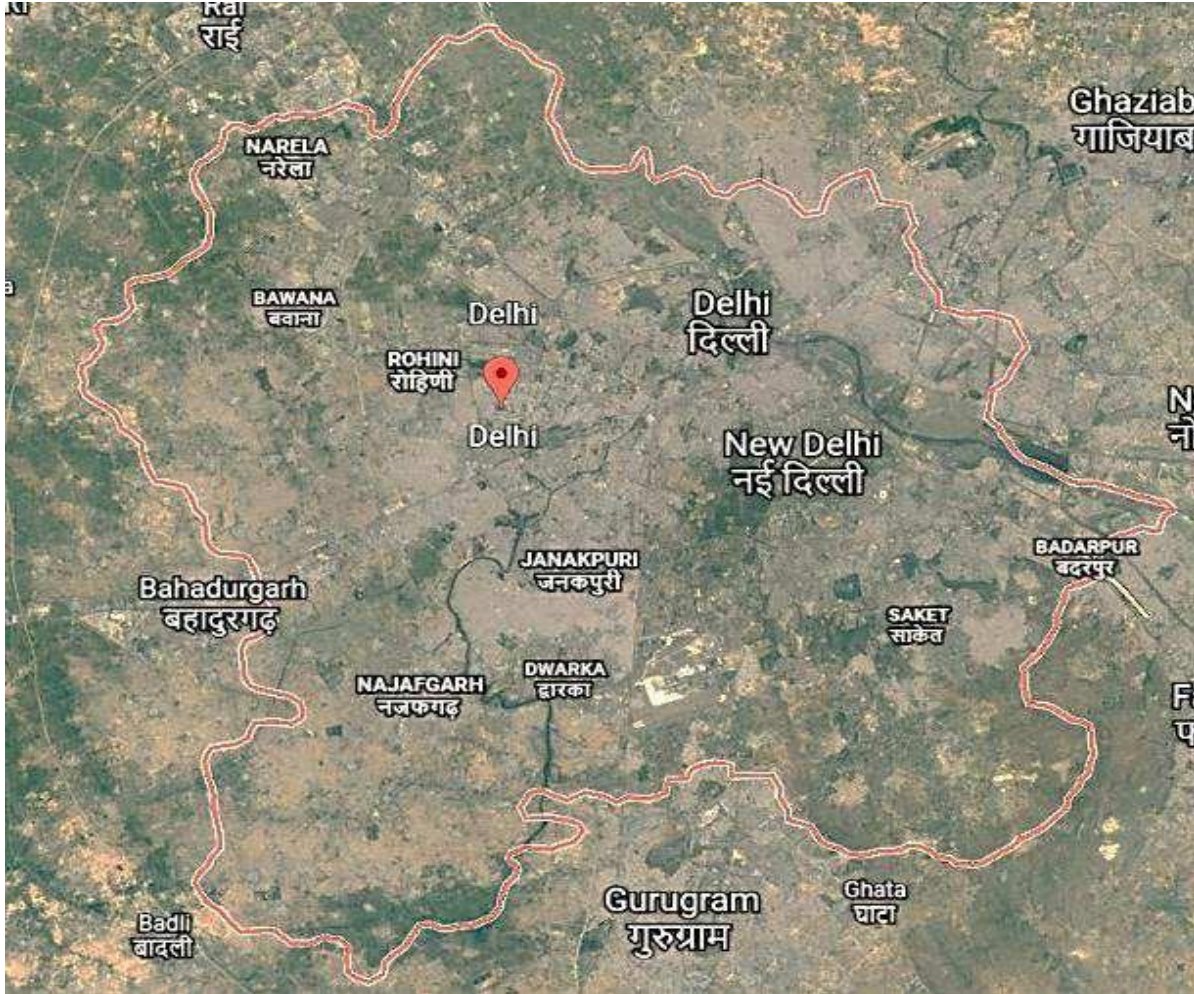
## Why Presence in Delhi ?

DELHI CITY OVERVIEW

**INTRODUCTION**



# CITY OVERVIEW



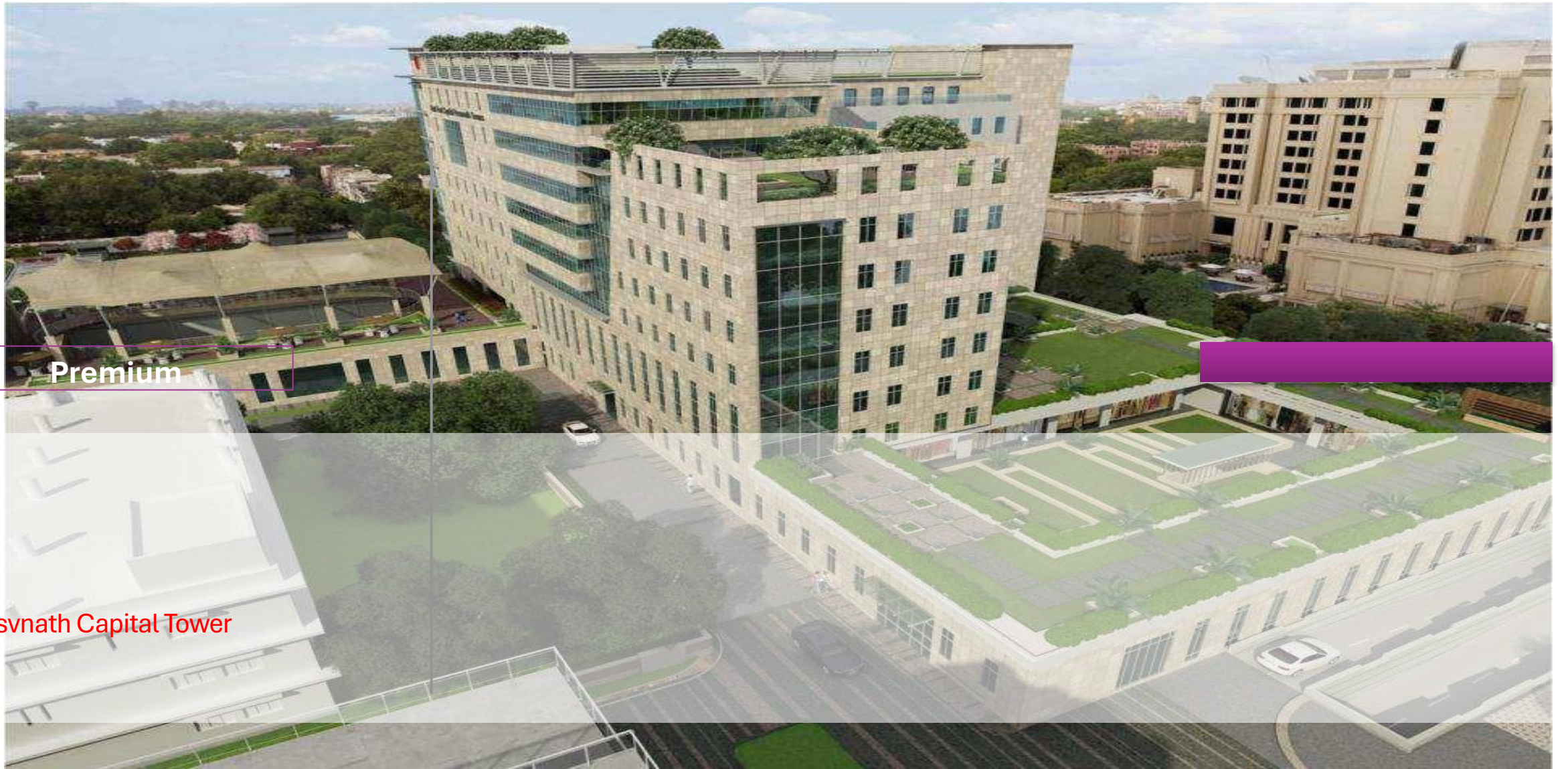
- ❑ Delhi, officially the National Capital Territory (NCT) of Delhi, is a city and a union territory of India containing New Delhi, the capital of India.
- ❑ Located on the Yamuna river
- ❑ A demographically diverse city, Delhi is bordered by the state of Haryana on three sides and by Uttar Pradesh to the east.
- ❑ Delhi covers an area of 1,481 km<sup>2</sup>.
- ❑ NCT has a population of about 16.80 million and includes the satellite cities of Ghaziabad, Faridabad, Gurgaon and Noida in an area known as the National Capital Region (NCR)
- ❑ Delhi is the second wealthiest city in India (after Mumbai) and has the second-highest GDP per capita in India (after Goa) Total revenue receipts for 2021-22 are estimated to be Rs 53,070 crore

# Prime CBD Location – Heart of New Delhi



## **Benefits Of The Location**

- It has well road connectivity.
- It connects various metro and is accessible.
- The area has integrated environment where the various tourist places are nearby.
- It has prestigious neighbourhood corporate profile.



Premium

Parsvnath Capital Tower

## ***A brief about the project:***

Delhi Metro Rail Corporation Ltd. (DMRC) had invited the bid from the eligible bidders for “Property Development at Bhai Veer Singh Marg, New Delhi”. Parsvnath Developers Ltd. successfully qualified and obtained the project through bidding process.

It is a BOT (Build-Operate-Transfer) project and concession period is for 30 years till Sep 2041. After that First Right of Refusal with the company.

Quarterly Recurring fees payable to DMRCL is as under:

Quarterly Amount payable	Rs. 2.85 Crore (Approx.)	Increase of 20% after every 3 years
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Bank Guarantee - Equivalent to One year Rental.

# Parsvnath Capital Tower – Summary Overview



Front View



Particular	Details
<b>Floors</b>	3 Basements + Ground + Eight Floors
<b>Total Project Area</b>	3,40,791 SFT
<b>Total Area in Phase 1</b>	~2,27,505 SFT
<b>Total Area in Phase 2</b>	~1,13,286 SFT
<b>Usage</b>	Corporate Office Commercial Amenities : F&B, Fitness Centre, ATM
<b>Leasing Status</b>	Phase 1 : More than 60 % Leased (5 floor leased out of 8 floor)  Occupiers :, WHO, SBI, ICICI Lombard, Aditya Birla Group, L'Oréal, ACCIL, Karam Yogi,
<b>Project Status</b>	Phase 1 : Operational Phase 2 : Operational
<b>Neighborhood Profile</b>	<b>Corporate Occupiers:</b>  World Bank, Exxon Mobil, DBS, Bank of America, BBC, HSBC, Cisco, Rolls Royce, Mizhou Bank  <b>Hotels:</b> In 3 KM Radius The Metropolitan Hotel, The Imperial, Shangri-La, Le-Meridian, The Park etc.

# ASSET OVERVIEW

<b>Property</b>	<b>Income generating completed Commercial property, long term leased from Delhi Metro Rail Corporation (DMRC)</b>
<b>Location</b>	<b>Prominent metro station, Delhi Metro</b>
<b>Concession End Date</b>	Sep 2041
<b>Super Area (Sq Ft)</b>	340791 {227505 + 113286}
<b>Area Leased (Sq Ft)</b>	1,87,878 – Phase 1
<b>Area Under Agreement/LOI Signed/Under Fit outs (Sqft)</b>	27,000
<b>Total Area Leased (Sqft)</b>	1,87,878
<b>Current Occupancy (%)</b>	<b>~ 83% Leased - phase 1</b>
<b>Tenant Profile</b>	International Organizations, Leading Corporate's
<b>Current Rental (PM)</b>	<b>Rs 5.85 cr (from leased) - Phase 1</b>
<b>Current Rental (Under Fit outs/ Agreements/ Under Signature)</b>	<b>Rs 0.91 cr (from Area Under Agreement/LOI Signed/Under Fit outs ) – Phase 1</b>
<b>Average Rental Achieved</b>	More than 312 Rs per sq ft on Super Area (from leased)
<b>Rental potential at 100% Occupancy (PM)</b>	<b>Rs 10.90 cr (@ more than Rs 330 psf for unleased)</b>
<b>Recurring Payment to DMRC</b>	Rs 0.95 crs per month (incl. GST) (Escalation @ 20% p.a. every three years; last escalation implemented in Oct'2021)
<b>Performance Security</b>	Equivalent to one year's Recurring Payment
<b>Transfer of Ownership</b>	Investment in Equity of Project SPV - As per Transaction Structure slide

# Site Plan – Dedicated Office Entry and Exit

Expansive Landscaped  
5-Acre Plot

OFFICE LIFT LOBBY # 2

LANDSCAPED DRIVE

OFFICE LIFT LOBBY #1

OFFICE ENTRY PLAZA & SCULPTURE GARDEN

OFFICE PARKING ENTRY & EXIT RAMP TO TWO DEDICATED BASEMENT PARKING FLOORS

FINE DINING & PREMIUM RESTAURANTS TERRACE GARDEN FOR OUTDOOR SEATING & EVENTS

DEDICATED OFFICE ENTRY DRIVEWAY



**LEGEND**

- TRAFFIC FLOW (Red dotted line)
- MAIN ACCESS RD (Green line)
- DEDICATED OFFICE ENTRY/EXIT (Red arrow)

Bhai Veer Sing Marg



# Services provided

- 5-star environment with superior property management.
- Efficient traffic management.
- LEED-rating for cost efficiency.
- Superior A+ materials palette.
- Sustainable LEED-certified green design for efficiency.
- Energy saving, water efficient fixtures, enhanced air quality.
- Luxurious lobby and lifts.
- Superior 5-tier security.

## Area & Agreement Details

<b>Particulars</b>	<b>Parsvnath Capital Tower</b>
Leasable Area	3.40 Lacs Sq. Ft
Present Agreement	Sept. 2041
Concession Period	30 Years
Land	(B. O. T.) DMRC
Usage of Land / Rights	Commercial Offices
USP of Rights	R.O.F.R.

## Phase I : Area Chart & Leasing Status

### Phase I (A)

<b>Floor</b>	<b>Total Leasable Area (In Sqft.)</b>	<b>Total Leased Area (In Sqft.)</b>	<b>Total Unleased Area (In Sqft.)</b>
8th Floor	21850	21850	0
7th Floor	23012	23012	0
6th Floor	28862	22462	6400
5th Floor	27010	27010	0
4th Floor	27777	27777	0
3rd Floor	28227	28227	0
2nd Floor	27700	0	27741
1st Floor	27700	27700	0
Terrace area *	5486	0	5486
<b>Total Area (A)</b>	<b>217665</b>	<b>178038</b>	<b>39627</b>

### Phase I - Front Block (B)

<b>Floor</b>	<b>Total Leasable Area (In Sqft.)</b>	<b>Total Leased Area (In Sqft.)</b>	<b>Total Unleased Area (In Sqft.)</b>
1st & 2nd Floor	9840	9840	0
<b>Total Area (B)</b>	<b>9840</b>	<b>9840</b>	<b>0</b>

## Phase II : Area Chart & Leasing Status

### Phase II

Floor	Total Leasable Area (In Sqft.)	Total Leased Area (In Sqft.)	Total Unleased Area (In Sqft.)
4th Floor	25142	-	25142
3rd Floor	27970	-	27970
2nd Floor	30087	-	30087
1st Floor	30087	-	30087
<b>Total Area</b>	<b>113286</b>	<b>-</b>	<b>113286</b>

# Details of Full Lease-Rentals Projections

## BVSM Leasing Summary

### Leased Status

S.NO	Leased Status		Chargeable Area (sqft)	Average Rent per sq ft/per month	Basic Rental(A)	Maintenance (B)	Car Parking (C)	Total Rental (A+B+C)
1	LTP SALOON	Front Block 1st and 2nd	9840	282.00	2774880.00	295200.00	34500.00	31,04,580
2	FIT INDIA	3rd & 6th	50689	317.40	16088689	1368603	-	1,74,57,292
3	A & Y INSURANCE	4th	12600	320.00	4032000.00	378000.00	65000.00	44,75,000
4	DXS BANK	5th	42187	290.75	12265690	1309869.00	276250.00	1,38,51,809
5	LPS INVESTMENT	8th	21850	350.45	7657333	655500.00	104750.00	84,17,583
6	Karamyogi	7th	23012	300.00	6903600	690360	-	75,93,960
7	CPS Limited	1st	27700	318.00	8808600	831000	-	96,39,600
1	<b>Sub – Total – Leased area - Phase 1</b>		<b>187878.00</b>	<b>312</b>	<b>5,85,30,791</b>	<b>55,28,532</b>	<b>4,80,500</b>	<b>6,45,39,823</b>

### UNLEASED -Phase I

S.NO	Phase 1	Floor	Total Lesable Area (sqft)	Rent per sq ft	Propsective Basic Rental(A)	Maintenance (B)	Car Parking(C)	Total Rental(A+B+C)
1	2nd Floor	Vacant	27741.00	330.00	9154530.00	915453.00	-	10069983.00
2	6th Floor	Vacant	6400.00		2112000.00	211200.00	-	2323200.00
3	Terrace- Ph-1	Vacant	5486.00		1810380.00	181038.00	-	1991418.00
2	<b>Sub-Total -Unleased (I) - Phase 1</b>		<b>39627.00</b>	<b>330</b>	<b>13076910.00</b>	<b>1307691.00</b>	<b>-</b>	<b>14384601.00</b>

<b>Grand Total</b>	340791.00		108992081.35	10574661.00	480500.00	120047242.35
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S.NO	Phase-II	Floor	Total Lesable Area (sqft)	Rent per sq ft	Expected Basic Rental(A)	Maintenance (B)	Car Parking(C)	Total Rental(A+B+C)
1	1st Floor	Vacant	30087.00	330.00	9928710.00	992871.00	-	10921581.00
2	2nd Floor	Vacant	30087.00		9928710.00	992871.00	-	10921581.00
3	3rd Floor	Vacant	27970.00		9230100.00	923010.00	-	10153110.00
4	4th Floor	Vacant	25142.00		8296860.00	829686.00	-	9126546.00
<b>3</b>	<b>Sub-Total -Unleased (I) - Phase 2</b>		<b>113286.00</b>	<b>330</b>	<b>37384380.00</b>	<b>37,38,438.00</b>	<b>-</b>	<b>41122818.00</b>

Particulars	Basic Rent	Maintenance	Parking	Total
Annual Rent	130.79	12.69	0.58	144.06
Less: DMRC (Annual Payment)	11.40	0.00	0.00	11.40
Less: TDS	11.15	1.43	0.06	12.64
Less: Maintenance Expense	0.00	14.36	0.00	14.36
<b>Net Flow</b>	<b><u>108.242</u></b>	<b>-3.10</b>	<b><u>0.52</u></b>	<b><u>105.66</u></b>

# Debt- Present Proposal



AT PRESENT OUTSTANDING DEBT WILL BE OF RS 367 CRS APPROX. (INCLUDING REDEMPTION PREMIUM) IS IN FORM OF 'NON CONVERTIBLE DEBENTURES 'ISSUED ON JUNE 2020 AND HAVING MATURITY DATE IS MARCH 2025, AS FOLLOWINGS;

S.No.	SERIES	OUTSTANDING AMOUNT (Rs. In Crs)	MATURITY DATE
1.	SERIES A	24.18 Crs	31 <sup>st</sup> March 2025
2.	SERIES B	272.55 Crs	31 <sup>st</sup> March 2025
	<b>Total (A)</b>	<b>296.73 Crs</b>	
3.	SERIES C	1018.80 Crs	31 <sup>st</sup> March 2027

SERIES A & SERIES B DEBENTURES ARE SENIOR & PRIORITY DEBENTURES AND HAVING PRIORITY IN SECURITY, CHARGE CREATION, SERVCING OF INTEREST & PRINCIPAL REPAYMENT OF OVER THE SERIES C DEBENTURES IN ALL RESPECT.

AT PRESENT SECURITY & CHARGE CREATED IN FAVOUR OF SERIES A & SERIES B ONLY AND SECURITY & CHARGE CREATION FOR SERIES C DEBENTURES WILL BE CREATED AFTER REDEMPTION OF SERIES A & SERIES B DEBENTURES.

AT PRESENT SERVCING OF INTEREST ONLY FOR SERIES A & SERIES B DEBENTURES RESPECTIVELY AFTER REDEMPTION OF SERIES A & SERIES B AND PAY OFF DATE OF SEREIS C START, AFTER REDEMPTION OF SERIES A'S & SERIES B'S NCD'S RESPECTIVELY.

WE WILL PAY THE SERIES A & SERIES B DEBT SIMULTANEOUSLY WITH NEW DISBURSEMENT AND ON SAME AKIN NEW LOAN/FUNDING WILL BE TAKEN.

NEW LOAN IN THE SHAPE OF LRD (LEASE RENTAL DISCOUNTING) FOR A PERIOD OF 7-10 YEARS BEING PLANNED.

Following structure can be used for creation of Charge

Obtain permission from DMRC

Permission from DMRC for 100% pledge of shareholding of SPV

Hypothecation of Receivables by Escrow mechanism after payment to DMRC.



**Income generating** – Net annual income of ~ Rs 70 crs at current level of leasing and with a potential of ~ Rs 130 crs at full occupancy

**Excellent Location** – Well connected through road and metro

**Diversified clientele** - Caters to metro commuters as well as established neighbourhood localities

**Clear Title** – Leased directly from DMRC

**Marquee Tenants** – Marquee tenants from diversified sectors

# Which Loan Is Best

BASIS	LEASE RENTAL DICOUNTING LOAN	MORTGAGE LOAN
Interest Rate	9 % - 12%	12% - 18%
Application Process	Simple	Simple
Requirement of Collateral	Yes	Yes
Processing fee	Required	Required
Amount of Loan	High	low
Repayment Period	Upto 15 years	5 years
Priority of bank	I	II
Safety of finance	More	less
Margin	30%	20%

Lease Rental Discounting is a type of term loan provided by bank against property generating rental income. This type of loan is very beneficial for the people having rental income only. If the interest rates increase, the cost of borrowing also increases.



Preference is given to those who give their property to corporates or brands for permanent rental income without any default.

We can have a high value of loan without any problem and by only having fixed rental income. It has a simple eligibility criterion and has a hassle-free application procedure.

## Purpose of the loan

The purpose of the loan is the repayment of the huge debt that we availed.

We believe that the LRD loan is the best option from any other loan.

- It has low interest rate.
- It can provide huge amount of loan to repay the existing loan.
- It is repaid through the rental income so doesn't affect cash flow of the company.

Mortgage loan cannot be taken as:

- It has high interest rate
- The property cannot be mortgaged.
- Cannot cover the loan amount.
- Low repayment period.

## Eligibility criteria for the loan

1. The person can be resident as well as non-resident to avail the loan.
2. Both salaried and self-employed professionals are allowed for the loan but must have a property given on rent.
3. The lease period should be minimum 3 years and maximum 15 years for claiming the loan.

This is to fund our asset and provide a huge amount in hand to be used for any general purpose. No loan is provided for under construction and vacant property, thus it must be on rent. The property needs to be insured completely to avoid any kind of loss to the bank and during the loan period and the property cannot be sold.

## Risks involved in the LRD loan

1. The risk that the tenant may default in the payment of the rent or vacant the property before the lease period.
2. Market fluctuation risk
3. Loan-to-value ratio may increase showcasing that the amount of loan provided is more than the value of the property.

## To Mitigate risk, banks:

1. Do the proper tenant screening
2. Analysis of diversified portfolio
3. Regular property valuation

## Application Process

1. Select the bank: Research various banks and financial institutions that offer such loans and compare them to get the best and suits our requirement.

The project proposal is prepared and sent to different banks and financial institutions. These entities revert terms and conditions for the project. They take various factors into consideration namely:

- Goodwill
- CIBIL Score
- Security

Along with the terms and conditions banks also provide us the interest rate applicable on the loan. After this we analyse the different options in the light of their interest rate and application process.

2. Suitable to their requirements: each bank have their own criteria for the loan thus need to understand each before applying.

3. Gather the necessary documents: there are various documents required by the bank like,
  - Proof of property ownership
  - Lease agreement with the tenant
  - Evidence of consistent rental income
  - Bank statements and the other relevant financial documents
4. Online application process: visit the website of the chosen bank and apply for the loan.
5. Track application

### The banks follow three stages for the LRD loan

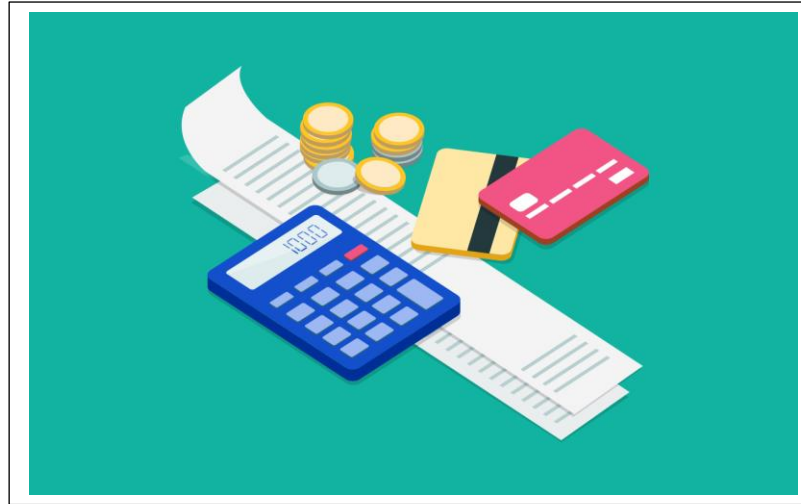
1. Preparation and submission of the required documents
2. Evaluation of the property, assessing the rental income and approving the application
3. Disbursing the loan amount once approved either in lump sum or in parts.

This can take few weeks or the couple of months in the procedure which differ from bank to bank. The LRD loan application process can be intricate, requiring careful attention to detail and thorough preparation. Engaging a financial expert or a banking consultant can aid in navigating the process smoothly.

### Bank Charges.

- Floating interest rate charges
- Processing fees

- Pre-payment charges
- Bounce charges
- Penal charges
- Stamp duty charges
- Broken period interest
- Mortgage charges
- CERSAI
- Commitment fee etc.
- Maintenance charges



## Lease agreement

There must be a lease agreement between the tenant and the owner to claim such loan. The agreement should be for long term (5-10 years). The agreement includes the terms and conditions like:

- Payment mode
- The rent including maintenance parking etc.
- The agreement includes the exit clause
- The payback period
- Notice period and many other.

## Bank Guarantee

If the tenant wants, he can have a bank guarantee for the rent payments.

On entering into lease the owner will often require the tenant to provide some form of security. The best way to impose such type of obligation on the lease if they are in default, is to request them a security deposit or a guarantee to the owner. Here the concept the bank guarantee comes into picture where bank i.e. the third party agrees to be responsible to certain financial obligation of the lessee and will agree to pay a sum of money should be lessee default on their obligation under the lease.

Bank guarantee should include:

1. The party for whom bank guarantee is made in favour of
2. The purpose of the guarantee
3. Description of the premises
4. The amount of guarantee
5. Date of expiry of guarantee

Bank guarantee has to be renewed every year. Bank guarantee also involves the claim period which is extra of the expiry date. The bank charge a certain fixed amount or the percentage on the guarantee as a charge. The charge differs from bank to bank ranges from 2%-3% overall. Along with the bank guarantee the GST of 18% is also applicable on the charge. Such charge is known as the bank guarantee commission. Karnataka Bank charges a flat rate of commission on the guarantee plus GST but the Punjab National Bank divides the bank guarantee accounts into 5 different categories on the different amounts. Thus, the slab is provided for the percentage of the commission ranging from 2% to 3%. The categorization is based on the return that is received on the bank guarantee. The renewal of bank guarantee attracts a charge.



The company takes 1-3 month rent in advance to have the cushion if the tenant leaves the property before the lease period. This amount acts as the security deposit with the bank in the separate account as per the conditions of the bank. This amount cannot be used for any other purpose and bank is also relieved.

## Cash Flow of Rent Receivables

As we found out that the LRD loan is the best option. To be eligible for such loan we have few properties on lease based on which we will apply for the loan. To know if we can repay the loan, we calculate the rent amount that will be received after all the expenses in the future.

Company prepares the cash flows projections for the next ten years. Initially the complete rent roll is written where, to whom the properties on rent are given are listed down with the rent per sqft and the area occupied. Also, the escalation percentage and the time duration is written. The calculation of rent is done quarterly.

Rent includes the rent, maintenance charges and parking space. Along with the escalation, ten years' rent is calculated.

$\text{Rent} = \text{Rent Amount Per Sqft Per Month} * \text{Area Occupied} * \text{The Number of Months}$

$\text{Escalation} = (\text{Rent} * \text{Escalation Percentage}) + \text{Rent}$

This is calculated for the maintenance charges as well as the parking space which is added to the rent.

For the floor which is unleased an assumption is kept that at the end of third quarter the floor will be leased and thus the inflow is calculated.

The inflow statement includes the rent received with GST @18% and deducting TDS @10%. Inflow statement have both the leased and unleased area.

The outflow is also calculated which includes DMRC charges including GST, upgradation work, security deposit return, maintenance and legal, operational management, salaries and other charges like professional etc. Bank guarantee charges are also included in the outflow.

The statutory payment is calculated separately in the cash flow. The GST received on the rent is added. The payment of DMRC charges includes GST which is separated out using a formula  $(\text{amount} * 100 / 118) * 18$  gives the GST amount. Also, any other charge which is for the government is added up to the statutory payment.

At the end the total outflow and total inflow is calculated and are subtracted to know the surplus which will be available with the company. Through this we calculate the surplus/deficit from operating activities.

## Loan Amount Considerations

On the basis of this the LRD proposal is kept where we calculate the loan that we need. The loan which is received is on the basis of the underlying value of the property and the discounted value of rentals.

The rent amount is calculated as mentioned above and the total is known to us that will be received in the future for the lease period. The rent that will be received in total will be used to payback the loan. The 70%-80% of the the total rent is only availed as loan as the person having the rental income only need some amount for it self also also not only the principle amount has to be paid but also the interest on loan. The tenure of the loan is extended to 7-8 years. This is done to keep the rental income safe in case of any default. The debt-to-income ratio also helps to know the loan amount.

## Interest Rate

There are various types of loans like housing, property, personal or business loan and banks provide different rates for each kind. The interest rate of the banks differ from organisation to organisation as well as individuals to individuals. The difference is because of various factors like:

1. The demand and supply prevailing in the market.
2. Rent receivables and the inflation rates.
3. CIBIL score i.e. the credit score which is provided to the company or the individual. The credit score matters a lot for any organisation who wants to take loan, is provided by Credit Information Bureau (India) Limited, CIBIL, which is licensed by RBI for managing credit score. Also credit score can be provided by Equifax, Eeperian and TransUnion.

Most of the banks tends to choose repo rate as the benchmark to set the interest rates. The banks have to keep in mind various factors before deciding the interest rate on the loan like:

1. The federal banks have kept an interest rate for every purpose which plays as a limit for many banks and this helps in monetary policy otherwise banks can charge as high interest rate as they want. Federal fund rate is the rate to trade in US popularly known as Fed.
2. Prime rate is also the rate set on the basis of fed rates, it is the rate which is set for the solid credit rating customers.
3. The interest rate is also kept keeping in mind the competitors, it cannot exceed more than the competitors.
4. The interest rate prevailing in the market which takes into account the inflation.



The interest is calculated as

**Principle Amount \* Interest Rate \* Loan Period**

## Escrow Account

In this loan an escrow account is opened with bank as it is the safest option. It is an account where funds are held with trust. It provides security against frauds and scams especially with high value asset. This is a temporary account as it operates until the completion of a transaction process, which is implemented after all the conditions between the buyer and the seller are settled. In real estate, the funds flow for the development of the project from any source is kept in the escrow account and the funds utilised for the same are also generated from the escrow account.

There is an escrow agreement between the bank, owner and the tenant. Property is provided as collateral which needs to be insured and cannot be sold during the loan period. This account cannot be used for any other purpose than the mentioned project in the agreement. It is a non-interest bearing and no lien account. In escrow account a claim period is provided extra to the end date which is the maximum period for the settlement of the account. In some agreements a trustee or the guarantor also comes into place in which he holds the property from the borrower and in case of default must pay the money to the lender.

The agreement includes:

- Rights and duties
- Representations and warranties
- Escrow agent
- Account holder
- Confidentiality
- Jurisdiction
- Resolving disputes
- Terms and conditions



## Equated Monthly Instalments

The EMI (Equated Monthly Instalment) on LRD loan is the amount that must be paid to the bank to repay the loan amount. The EMI includes a part principal amount as well as the interest amount. It is the fixed sum of money paid by the borrower to the lender.

EMI is the structured repayment method that facilitates affordability for borrowers by breaking down a larger amount into manageable monthly payments over a specified predetermined period. EMI spreads out the cost involved thus reducing financial burden. Timely payments increase the creditability of the organisation and thus helps in getting access to favourable interest rates.

In case the borrower makes a pre-payment through the tenure of a running loan, either the subsequent EMIs get reduced, or the original tenure of the loan gets reduced or a mix of both and vice versa. Similarly, in the case the rate of interest reduces through the tenure of the loan, the subsequent EMIs get reduced or the tenure of the loan falls or a mix of both and vice versa.

The EMI on LRD loan is calculated using the following formula

$$\text{EMI} = [P * R * (1+R)^N] / [(1+R)^{N-1}]$$

Where,

P is the principal loan amount

R is the interest rate per month

N is the number of months in the long term

The rental income generated by the property can be used to repay the EMI, and the loan amount can be paid off in full at the end of the loan term.

Only the fraction of the rent is set as EMI excluding the expenses required by the company for its operations. The fixed amount is decided from the rent which excludes the expense as well as the interest amount because interest amount may fluctuate.

## Learning Outcomes

- The company prepares accounts project based to keep each project separate.
- Company assumes the unleased floors to be leased in future date which means they follow going concern principle and knows priorly the funds available for the working.
- They make a cash flow keeping in mind each expense and income possible and follows a consistent pattern.
- Each step is important for the LRD proposal.
- The company follows the procedure religiously and is prepared before hand for any kind of problem in future.
- The papers are prepared before applying for the loan.
- Proper evaluation of the rental income is done before hand to know the consistency and accurate amount for the repayment of loan.
- Also, the valuation of property is done on own also to get the better idea of the market.
- Company sends the terms of the agreement to a law firm hired which reduces the stress of any kind of mistake. Thus, outsourcing is the better option.
- Ever employee have their own set of work and is divided in such a way that not one person is burdened with the entire project.
- The rental income also plays a very important part in one's life and can help to finance huge amount.

## Suggestions

- The loan should not be extended than 50% of the value of the asset to provide the cushion to lenders.
- Lock-in-period to be taken as loan duration so that even if tenant leaves it cannot leave before this period and thus safety to payment and reducing the risk.
- Timely and proper documentation to be prepared.
- Should have the cushion if the tenant leaves before the lease period. Can take 2-3 months rents as security deposit if he leaves early.
- Follow a proper legal procedure in case of any default by the tenant.
- Attrition of the tenant flow and follow procedures to maintain a tenant for long term so that loan is easily repaid.
- Have proper insurance of the property and have regular checkup.
- Have regular property valuation on own also and not wholly depend on bank.
- Prepared with the plan for any kind of change like market fluctuations or the tenant terms or natural disaster.
- Have regular follow up from the tenant and try to mitigate any kind of problem.
- Regular follow up from the bank related to interest and any kind of other charge that is not charged extra.
- Company should maintain proper records for each tenant and the bank repayment also.



# Appendices

The data that is included in the report is from the company. The entire data set as well as the content are from the agreements that I read in the company. For the safety and the sensitivity of the data, the dataset used in the report is changed but the process that is followed is same as followed in the company. I have received the hands-on experience on the different agreements. To complete this project, I have read many agreements like:

1. Bank guarantee
2. Escrow agreement
3. Agreement to sell

Also, to cover all the aspects of the project I have gathered as authentic information as possible. I calculated different commission and rents on my own for better understanding.

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Thanks