



**Cabinet approves relaxation in
FDI norms in construction sector
(Oct 14')**

Indian FDI Policy revisions – Revitalizing Construction Development Sector

The Union Cabinet chaired by the Prime Minister, Shri Narendra Modi, gave its approval on October 29, 2014 for amending the existing Foreign Direct Investment (FDI) policy on the 'Construction Development Sector'.

Key Objectives :

- Enhance inflows into Construction Development Sector
- To attract investments in new areas
- Encourage development of plots for servicing housing
- Development of low cost affordable housing

This Precursor provides analysed insights on the major changes and implications of the proposed amendments for stakeholders

Key Highlights

No requirement of minimum area development for **serviced plots**

Reduced Timeframe - Min FDI to be brought within 6 months of commencement of Project

Change in **min area development** for construction development projects
(From 50,000 sq. mt. Build up to 20,000 sq.mt Floor Area)

Specific allowance to exit under Approval Route—

- Repatriation of FDI
- Transfer of stake from NR to NR, before the completion of the project

Investors can **EXIT** immediately on project completion / 3 yrs from date of final investment, subject to development of trunk infrastructure

Waiver of condition to develop 50% of project within 5 yrs from statutory clearance date

100% FDI Permitted under automatic route for – **Completed projects** for operation & management of townships, malls/ shopping complexes and business centres

Min area development & min capitalization conditions **exempted** for –
Projects committing min 30% of total project cost for **lowcost affordable housing**

Min capitalization reduced for WOS
(From US \$ 10million to US \$5million)


Investor responsibility of obtaining regulatory permission dropped now

Comparative Analysis (1 of 2)

Particulars	Existing provisions	New Provisions
Minimum area requirement	<p>Development of Serviced Housing Plots – 10 hectares</p> <p>Construction Development Projects – Built up area of 50,000 sq.mt</p>	<p>Development of Serviced Plots – Requirement removed; Also the word “Serviced Housing Plot s” replaced by “Serviced Plots” allowing companies to have commercial plots</p> <p>Construction Development Projects – Floor area of 20,000 sq.mt.; “Built up” changed to “Floor area”</p>
Minimum capitalisation requirement	<p>For WOS – US \$10 million</p> <p>For JV with Indian partners – US \$5million</p>	<p>US \$5 million in all the cases</p>
Time frame to receive FDI	<p>Minimum capitalization requirement - Within 6 months from the commencement of the business</p> <p>Balance – No limit prescribed</p>	<p>US \$5 million – within 6 months of commencement of the project i.e. date of approval of the building plan/lay out plan by the relevant statutory authority</p> <p>Balance – Till 10 years from the commencement / before completion of the project, whichever is earlier</p>
Time frame to develop project	<p>Minimum 50% of the Project to be developed within 5 years of obtaining statutory clearances</p>	<p>No such time frame prescribed</p>
Exit Period for investors	<p>Lock in period of 3 years from completion of minimum capiitalisation</p>	<p>Permission to exit immediately on project completion / 3 years from date of final investment, subject to development of trunk infrastructure</p>


Comparative Analysis (2 of 2)

Particulars	Existing provisions	New Provisions
Exit before prescribed time	Permitted to exit earlier with prior approval of the Government through the FIPB	Specific allowance under Approval Route on case to case basis – <ul style="list-style-type: none"> • Repatriation of FDI / • Transfer of stake from NR to NR, before the completion of the project
Exemptions for projects for Low cost affordable housing	No specific exemption provided	Minimum area development & minimum capitalization conditions exempted to investee/joint venture companies which commit at least 30% of the total project cost for lowcost affordable housing
Investor Responsibility	Investor / Investee Company responsible for obtaining all necessary approvals	Indian Investee Company responsible for obtaining all necessary approvals; thus easing investor responsibility
Additional notes	<ul style="list-style-type: none"> • Investee Company to procure a certificate from an empanelled architect to sanction building plan certifying the compliance with the minimum floor area requirement • 'Floor area' to be defined as per the local laws/regulations of the respective State governments/Union territories • Affordable Housing Projects - Projects using at least 60% of the FAR/FSI for dwelling units of Carpet Area not more than 60 sqm. • 100% FDI under the automatic route is permitted in completed projects for operation and management of townships, malls/ shopping complexes and business centres 	



Much needed steps for fostering growth in the construction development sector are being taken up by Union Cabinet by initiating liberalization of the FDI Policy.

In our view, the relaxations in the conditions for foreign investments in real estate and construction sector are a significant boost to foreign investors to invest in residential and commercial projects. Reduction in minimum area development, capital requirements, exemptions for low cost affordable housing are expected to act as major catalyst for enhanced inflows in the sector.



Thank You....



Progress with Values

Corporate Office

Pantomath Advisory Services Group, 108, Madhava Premises,
Bandra Kurla Complex, Bandra (East), Mumbai - 400 051

Landline: (022) 2659 8687/91, **Fax:** (022) 2659 8690

Website: www.pantomathgroup.com

E-mail : info@pantomathgroup.com

Associate Offices at

Bhopal - Madhya Pradesh

Borivali - Mumbai

Gandhinagar - Gujarat

Kolkata - West Bengal

Pune - Maharashtra

Surat - Gujarat

Vapi - Gujarat

Disclaimer

All data and information is provided for informational purposes only and is not intended for any factual use. It should not be considered as binding / statutory provisions. Neither Pantomath Advisory Group nor any of its group company, directors, or employs shall be liable for any of the data or content provided for any actions taken in reliance thereon.