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Chartbook on Pradhan Mantri Awas Yojana – Urban

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The Pradhan Mantri Awas Yojana – Urban (PMAY-U), being implemented by the Ministry of Housing and Urban Affairs under the 'Housing for All by 2022' mission, has come a long way since inception in June 2015.

The scheme provides assistance to states and union territories for addressing the housing requirements of slum dwellers/ urban poor across the country. It has four verticals for implementation– *in situ* slum redevelopment (ISSR), affordable housing in partnership (AHP), beneficiary-led individual house construction or enhancement (BLC) and credit-linked subsidy scheme (CLSS).

According to the ministry's recent announcement, BLC has topped the chart with 56% in terms of popularity among beneficiaries of PMAY-U, followed by AHP with 33%, ISSR with 7% and CLSS with 4%.

Verticals under PMAY-U:

ISSR

- Land as a resource with private participation
- Extra FSI/FAR and TDR if required
- Central assistance of Rs 100,000 per house
- Developers to benefit from 'free sale component'

AHP

- With private sector or public sector agencies
- Central assistance of Rs 150,000 per EWS house in projects where the project has at least 250 houses and 35% houses eligible for EWS category
- State government/ ULB contributes depending on criteria

CLSS

- Interest subvention subsidy for EWS, LIG and MIG for new house
- Beneficiaries of EWS and LIG seeking housing loans from banks, housing finance companies and other such institutions would be eligible for an interest subsidy at the rate of 6.5% for a tenure of 20 years or during the tenure of the loan, whichever is lower. The net present value of the interest subsidy will be calculated at a discount rate of 9%. The credit linked subsidy will be available only for loan amounts up to Rs 600,000
- For MIG category, it is applicable to loans of up to Rs 1.2 million: beneficiaries to get 4% relief on loans up to Rs 9 lakh and 3% for loans up to Rs 1.2 million

BLC*

- For individuals of EWS category for own house construction or enhancement
- Central assistance of Rs 150,000 per beneficiary

Note: EWS households: Family income up to Rs 300,000; size of the proposed house will be up to 30 square meter (carpet area)

LIG households: Family income between Rs 300,000 and Rs 600,000; size of the proposed house will be up to 60 square meter (carpet area)

MIG households: Family income between Rs 600,000 and Rs 1.8 million; size of the proposed house (for CLSS benefit) will be up to 200 square meter (carpet area)

**Enhancement of existing houses are also included under beneficiary-led construction based on eligibility criteria in terms of number of rooms, details of family members etc.*

Source: Ministry of Housing and Urban Poverty Alleviation, CRISIL Research

The Ministry of Housing and Urban Poverty Alleviation, on September 21, 2017, announced a Public Private Partnership (PPP) Policy to promote private investments in affordable housing. The policy aims to tap private and public land for affordable housing under eight PPP options.

Summary of CRISIL Research's assessment of announced policy

Sr. No.	PPP model	Land as a resource	Construction to be done by	Government intervention in handing over units to beneficiaries	Form of funding by government	Land allotment based on
1	Extension of CLSS	Private	Private	Yes	CLSS	Not applicable
2	Extension of central assistance	Private	Private	Yes	Central Assistance	Not applicable
3	Design, Build and Transfer model	Government	Private	Yes	Based on progress of project as per agreed upon milestones	Bidding: Least cost of construction per unit
4	Cross-subsidised model	Government	Private	Yes	Cross subsidy from revenues from high end house building or commercial development	Bidding: Maximum number of affordable houses to be built
5	Annuity based subsidised housing	Government	Private	Yes	Deferred annuity payments	Bidding: Low annuity payment
6	Annuity-cum-capital grant based housing	Government	Private	Yes	Upfront payment+ Deferred annuity payments	Bidding: Low annuity payment
7	Direct relationship ownership housing	Government	Private	No	Cost recovery directly from buyers	Bidding: Least cost of construction per unit
8	Direct relationship rental housing	Government	Private	No	Cost recovery directly from buyers (rentals)	Bidding: Least cost of construction per unit

Source: Ministry of Housing and Urban Poverty Alleviation, CRISIL Research

The overall target under the scheme, which was 20 million dwelling units initially based on Census 2011, has been halved to 10 million dwelling units based on actual demand assessment submitted by states and union territories.

Despite this, challenges remain.

We take a look at how the scheme has fared so far.

Targets achievable if current sanctioning velocity is maintained

As of November 26, 2018, 6.3 million houses had been sanctioned. Of these, while 1.2 million houses have been constructed, 2.3 million houses are under construction.

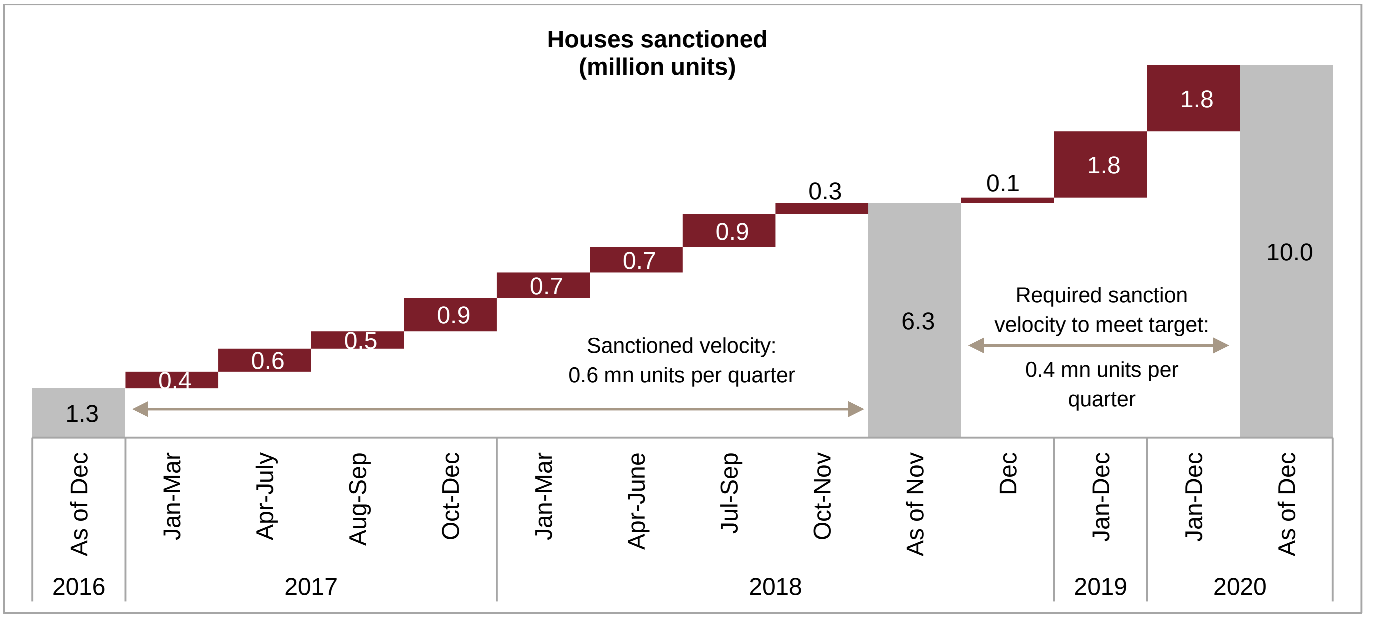
Considering most of the group housing projects (except BLC) have an execution period of 2-3 years, most of the sanctioning needs to be completed by 2020 in order to complete the target of 10 million dwelling units by 2022.

By March 2019, the ministry has set a target to sanction 7.5 million houses and construct 3 million houses.

Over the past seven quarters, PMAY-U has witnessed average project investments worth Rs 350 billion per quarter and average sanctions of 600,000 units per quarter. Going by the current sanctioning velocity, the targets seem achievable, provided execution also gains momentum.

Now in its fourth year of implementation, the scheme has witnessed faster completion velocity in recent months. This gives reason to believe the completion velocity will gallop in coming years.

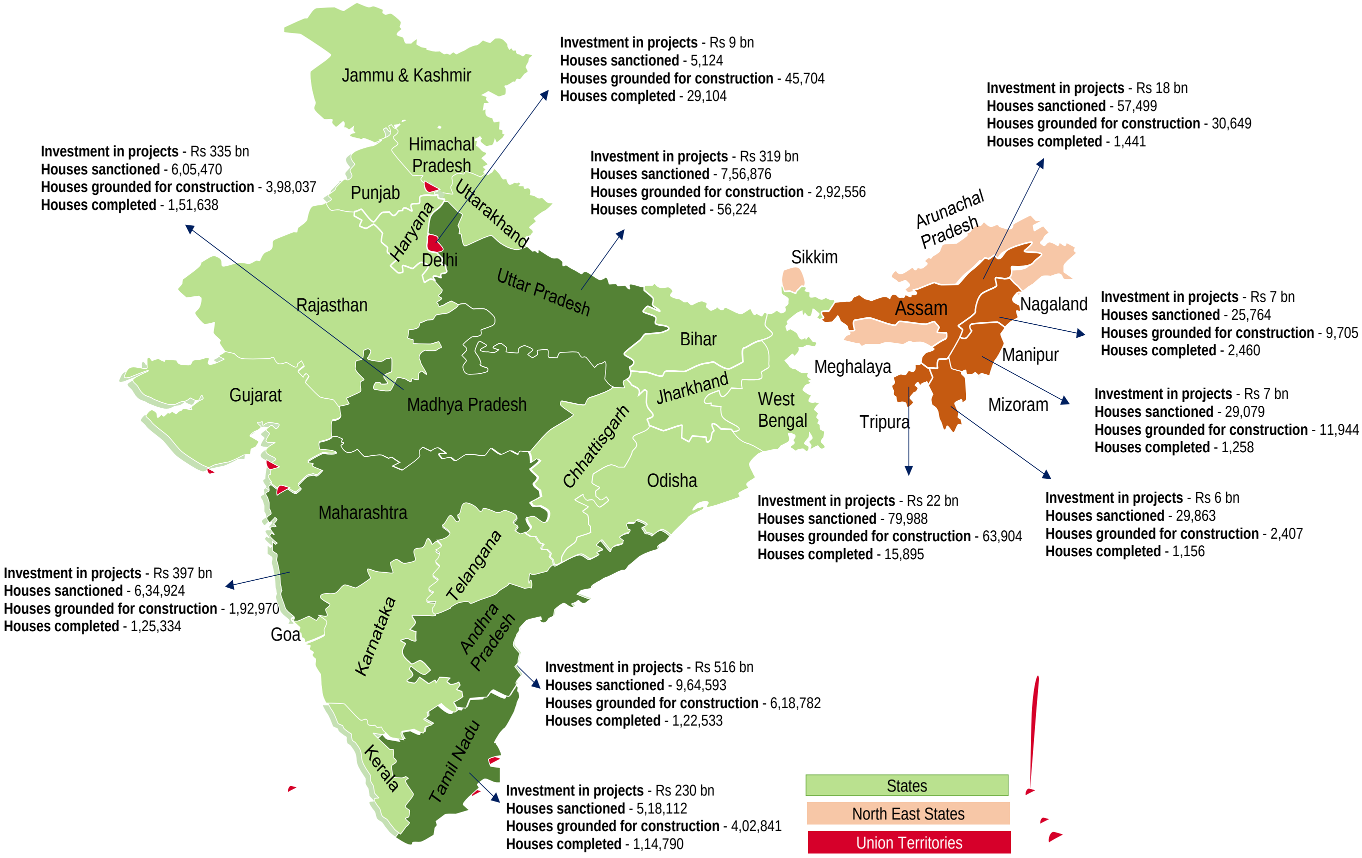
PMAY-Urban: Progress on sanctioned units



Note: Taking into consideration that most group housing projects (except BLC) have execution timelines of 2-3 years, all the sanctioning has to be completed by 2020

Source: Ministry of Housing and Urban Affairs, CRISIL Research

Progress across states



Note: Status as of November 26, 2018; Dark shade indicates top five states in terms of number of houses sanctioned

Source: Ministry of Housing and Urban Affairs, CRISIL Research

As of November 26, 2018, the top five north-eastern states in terms of sanctioned houses are Tripura, Assam, Mizoram, Manipur and Nagaland, which contribute to just about 4% share of the overall sanctions. Similarly, among the remaining states, Andhra Pradesh, Uttar Pradesh, Maharashtra, Madhya Pradesh and Tamil Nadu are the top five states, which command 55% share of the overall sanctions. Among the union territories, Delhi tops the list, with less than 1% share of the overall sanctions.

Centre needs over Rs 1 trillion in next three years to achieve target

Considering 10 million units as the scheme objective, the total money to be disbursed from the Centre over the life of the scheme is a whopping Rs 1.5 trillion – at an average of Rs 150,000 per house. This appears challenging, considering barely 22% of the requirement has been released so far. To elaborate, as against the total project investment of Rs 3.4 trillion as of November 26, 2018, central assistance of only Rs 325 billion had been released.

Typical central government share per dwelling unit under PMAY-Urban verticals

Verticals	Central government share (Rs)
ISSR	1,00,000
AHP	1,50,000
CLSS	2,30,000 - 2,67,000
BLC	1,50,000

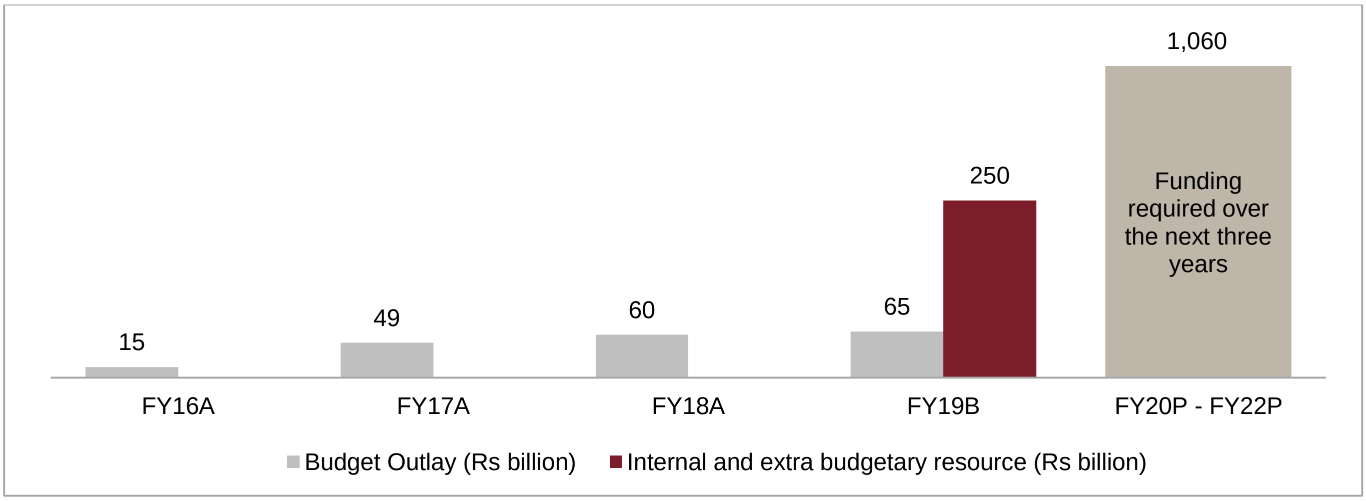
Note: States/ Urban Local Body in most cases contribute in the form of land (However, mode of funding varies across States)

Source: Ministry of Housing and Urban Affairs, CRISIL Research

While the actual outlay over fiscals 2016-2018 was Rs 125 billion, the central government has budgeted an outlay of Rs 315 billion for fiscal 2019 (including a provision of internal and extra budgetary resource worth Rs 250 billion).

Given this, the central government needs more than Rs 1 trillion over next three years to achieve PMAY-U target of 10 million houses.

Mode of central government funding:



Note: A- Actual; B-Budgeted; P-Projected; IEBR may include bonds raised through entities such as Housing and Urban Development Corporation Ltd

Source: Budget document, Updates from Ministry of Housing and Urban Affairs, CRISIL Research

Several challenges need to be addressed for smooth execution

Despite smooth progress on sanctions and completions so far, the scheme faces a few headwinds as highlighted below.

- **Funding constraint**

  For extra budgetary resources, the ministry has already initiated fund-raising (in the form of bonds) through entities such as Housing and Urban Development Corporation Ltd. As these are typically bonds with 10-year maturity, with interest and principal repayment to be managed through future budgetary announcements, provisions in future budgets remain a key monitorable, though these can provide a big fillip to the real estate sector if pushed through.

- **Unavailability of land in prime areas**

  If we assume 10 million dwelling units of 400 sq ft built-up area each to be constructed by 2022, the approximate land required with an FSI of 3 will be around 30,000-32,000 acre across India, which is mammoth. Land is one of the major raw materials for developers and its location and cost are key determinants of the overall profitability for the private sector. In metro cities, availability of sufficient land seems next to impossible, until and unless land under the possession of government bodies is released, which could take time. Lack of availability of land in city limits is the prime reason for implementation of most PMAY-U projects in the outskirts of metro cities.

- **Low participation of private developers**

  The government has been taking efforts to increase private participation, however, that has not helped much in roping in the required stakeholders. The latest initiative taken by the government is introduction of PPP models (last year) in order to make it more lucrative for the private developers. Along with incentives such as access to lower cost of funds (with infrastructure status), interest subsidy, faster approvals, private developers – in a few models – also receive additional amount per dwelling unit from the central and state government, apart from the amount the beneficiary gives. However, private developers have been cautious in taking on PMAY-U affordable housing projects, mainly on account of brand dilution, bidding mechanism, stringent cost and time schedules, resulting in low yields. In fact, renowned developers have been quickly shifting to smaller units – supporting CLSS – that allows them to take infrastructure and profit linked benefits.

- **Increasing construction cost**

  While land cost plays a major role in deciding the overall project cost, cost of other raw materials is also a key parameter that impacts the overall construction cost. During the past couple of years, the cost has been on a rising trend, while capital values have remained under pressure – impacting the margins of most players in the industry. Bulk sourcing of materials – possibly at state level – is crucial in such cases.

- **Lack of new technology**

  In order to expedite the housing process, the Ministry of Urban Affairs has been actively promoting the use of prefabrication technology under the PMAY-U mission. However, most of the housing projects are still being executed under the conventional construction method. With such a large scale of operation, it becomes crucial to adopt new technologies to enhance the productivity, cost efficiency and quality.

PMAY-U offers ~4 billion sq ft construction, allied opportunities

The scheme's massive scale has so far supported growth in allied industries such as cement, steel and housing finance as well.

The construction opportunity over the life of the scheme works out to a whopping 4 billion square feet (assuming 400 sq ft on average per dwelling unit).

There is a humungous opportunity for input industries, too. For one, consumption of cement per dwelling unit is around 8,000-10,000 kg, which translates to a total consumption of 80-100 million tonne over the life of the scheme. Similarly, with steel consumption of 1,000-1,200 kg per dwelling unit, a total consumption of 10-15 million tonne of steel is expected. This translates to 17% of the country's incremental cement demand and 8% of the country's incremental steel demand over the implementation period.

Opportunities from PMAY-U, considering 10 million units

Construction	• 4 billion square feet
Cement	• 80-100 million tons
Long steel	• 10-15 million tons
Housing Finance	• Rs 2 trillion+
Employment^	• 90-100 million jobs

Note: ^ The figure does not take into consideration repetition of jobs

Source: CRISIL Research

The scheme also opens up potential for housing finance companies. Assuming a loan-to-value of 70%, the beneficiaries will need lending of more than Rs 2 trillion. As most beneficiaries of the scheme are employed in non-formal sector/ have low income levels, lending to this class of borrowers require specialised underwriting. This has been one of the major focus areas of housing finance companies till now. However, in the current scenario of cautious lending and at increased cost of funds, disbursement growth is likely to slow down from housing finance companies as well. This may impact offtake of units under the scheme for a few quarters as lending to this class of customers was till now dominated by housing finance companies.

Last, but not the least, employment generation. According to a study conducted by the National Council of Applied Economic Research, for every Rs 100,000 invested in the housing sector, 2.69 new jobs are created in the economy, which converts to about 90-100 million jobs over the execution period. However, it does not take into consideration repetition of jobs once a project is completed.

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