

Riding on success

SANJAY BORADE



Arya: a decent job

The deal is being touted as one of the biggest deals in the commercial property segment. More than the sums involved, the deal is significant as it was inked in one of the worst periods in the property market. For Arya, it was another well-timed exit. "We have done a decent job," she modestly points out adding that "Our philosophy of partnering reputed developers, conscious of their brand with a focus on timely execution has paid off."

For Arya this has been a personal milestone. An HR professional in her own right, Arya was forced to take over the CEO's role, post her husband's death. Initially she had even been thinking of selling off the fund. However the reluctant CEO, persuaded by her staff and investors, continued to operate the fund. And she has done a remarkable job of handling people, as she did in her earlier role and handling assets, along with the people in Milestone.

A fast learner, Arya's single-minded focus has been creating value for the investors across her funds. In November last year, Milestone had made another exit. It sold off its investment in a residential project, Godrej Prakriti, located at Sodepur, Kolkata for a realisation of ₹200 crore. This was done at a multiple of 2.3x. A series of other exits were undertaken at various points in time over the last couple of years. While the returns have not been supernormal, the exits have yielded returns ranging between 1.5x-2x on an average. (See table). While most of the investments were made earlier during Ved Prakash's time, Rubi Arya was the one who nurtured them. At a time when other funds have been trying their level best to ensure against capital erosion, even getting reasonable returns are being appreciated by the 16,000 strong investors of Milestone. These includes 13 PSUs, 3 insurance companies, 93 corporate houses and 30 ultra high networth individuals, family offices and trusts, besides retail investors. Most of the investors have invested across successive funds.

N.D. Desai, chairman, Apar

A good track record of exits augurs well for Milestone's future funds

Back in June 2010, ILFS-Milestone, a joint venture property fund of Milestone Capital Advisors, bought a 74 per cent stake in 247 Park, a Leed certified green building, at Vikhroli, a Mumbai suburb for ₹260 crore. Built by HCC Real Estate, a subsidiary of HCC Ltd, the marquee property had a built up area of 1.1 million sq ft with 85 per cent of the property already being leased out within 3 months of its launch. The property market was bad, reeling under the aftermath of the global financial crisis, and the deal was supposed to be a win-win situation for all concerned. Ved Arya, the then founder chairman of Milestone Capital, had led the investment, in the ILFS Milestone Fund.

The commercial property market has not recovered in any meaningful manner, since then. Five years later, on 28 May, ILFS-Milestone along with HCC sold off their stake to Blackstone at an estimated value of ₹1,060 crore.

HCC netted ₹200 crore while Milestone will get around ₹700 crore. Blackstone had been eyeing the marquee asset over the last two years and had at one stage even offered to pay ₹1,000 crore in FY14. ILFS Milestone Fund, now headed by Rubi Arya, executive vice-chairman, who took over after her husband's Ved Arya's untimely death, following a freak accident in August 2011, however held back. For one, Blackstone had offered only a small portion of the cash upfront. The balance payment was linked to other benchmarks being achieved. This time ILFS-Milestone and HCC got a better deal with most of the payment coming upfront. Blackstone on its part, got a higher yield from the rents which have moved up from ₹63 per sq ft to ₹100-110 per sq ft over the last five years. While returns from the investments are not known, analysts estimate that the deal will fetch an IRR ranging between 24-25 per cent.

Industries, and an investor in multiple funds in Milestone says, "We are on the whole satisfied with the performance. Rubi Arya has done extremely well. I find that Milestone has honoured the commitments and lived up to our expectations."

Other private equity firms that operate property funds also have a good respect for Arya. Says Sunil Rohokale, CEO & MD, Ask Investments, which has an AUM of ₹4,000 crore. "The continued astute leadership of Arya has been instrumental in holding partners together and enabled the fund to make exits at good prices."

Arya has been quietly working towards developing a well rounded policy. Milestone had raised ₹3,700 crore in the first few years since its launch, through development funds, structured debt fund and private REITs like funds, PMS and also a bullion fund (see table). All but two funds, Milestone Domestic Scheme III and ILFS Milestone Core Plus, were closed earlier during Ved Prakash Arya's tenure.

Exit milestones

A good platform and a loyal customer base helped. Of these, the bullion fund was closed while the education and healthcare fund, raised along with Religare group were sold off under Rubi Arya's leadership. It has also fully exited the portfolio management scheme which managed ₹330 crore. In the seven remaining funds, more than 100 per cent of the investments have already been returned to investors. The valuation of the undivested capital which was ₹1,768 crore as on March 2015, will go down by another ₹500 crore, post the 247 park exit till new funds become operational.

The 247 Park exit has again brought Milestone to the forefront amongst property funds, demonstrating not only its ability to get good assets, ensuring timely execution, nurturing them and making exits at appropriate time. Rubi Arya made 14 of the 21 odd exits. Talking about exits, she says that one has to prepare for exits. In residential projects it is largely predetermined,

depending on the sale of units. However in case of commercial assets one has to think of an exit strategy early on, sometime even at the time of committing initial investment she says. Close cooperation and working with the developers is a must. It makes sense to have an exit strategy in place, she points out. To get a good price in the case of rental properties one has to "prepare the asset". One has to ensure a good mix of tenants, paying reasonable rent to attract buyers. In case of one property she says a year before exit she got a multinational computer company to ink a tenancy agreement for 9 years with a lock-in period of one and a half years. This helped her in getting a good deal from a prospective buyer. This was a high net worth individual looking at a steady income stream. Milestone's other assets including a mall in Rajkot, a property in Pune were also sold to HNIs. "We often have to work with other investee companies to work towards an exit." In Bhiwandi, near Mumbai, Milestone sold off a warehouse to a developer.

Milestone has a good board of directors and advisors. This includes Nawshir Khurody, former chairman and MD of Voltas, R.N. Bharadwaj, former LIC chairman, Amit Dalal, executive director of Tata Investment Corporation and V.K. Chopra, former CMD, Corporation Bank

amongst others.

Arya also draws support from other veterans in the field, many of whom had supported her during the initial period. Even today, she seeks advice before making a large investment.

As a measure of prudence the fund house is also building up a diversified income stream. Milestone Capital Advisor has a subsidiary, Milestone Trusteeship Services, which provides trusteeship services for debentures issues, ESOPs, securitisation transactions etc. The total assets managed are roughly worth ₹9,000 crore. Being a service company, the fees are a miniscule portion of the AUM.

Milestone considers itself a conservative fund house. As a measure of risk mitigation measures it spreads its investments across assets. The average ticket size of investment ranges between ₹100-150 crore. Continuous monitoring is done with quarterly reports being given to investors.

Given the current market conditions in the commercial segment, Arya is pretty bullish on the commercial segment which has not grown significantly, both in terms of value as also in terms of availability, over the last 5-8 years. She feels the environment is conducive for growth in this segment. A view shared by several experts who feel that M&A will rise in this space. Says Sanjay Dutt, executive managing director - South

Milestone's other exits 2012-15

	Investment	Total exit	Multiple
Development funds			
Godrej Prakriti, Kolkata	86.00	200.00	2.3x
Dheeraj Insignia, Mumbai	50.00	85.00	1.7x
Platina, Hyderabad	24.00	37.00	1.5x
Ramaniyam, Chennai	22.00	34.00	1.5x
Richa-Horizon & Sundernagar, Mumbai	50.00	74.00	1.5x
Pelican-Belfort, Pondicherry	20.00	37.00	1.8x
Jain Heights, Bangalore	15.00	22.00	1.5x
Rental yield funds			
Grand Central Mall, Rajkot	47.00	77.00	1.5x
Cerebrum B-2, Kalyaninagar, Pune	128.00	214.00	1.8x
ACORN Warehouse, Bhiwandi, Mumbai	130.00	203.00	1.5x
Raheja Titanium, Jogeshwari, Mumbai	46.00	56.00	1.3x
Millennium Tower I, Salt Lake Sec-5, Kolkata	51.00	84.00	1.6x

Asia, Cushman & Wakefield, "Acquisition of commercial space is the way to go, especially in Mumbai where the prices in the next 12-24 months will only see an increase. Further the cost of land, due diligence, approvals, construction cost and marketing risks are high. In addition, the demand drivers of the city are also strong and have a diverse sector appeal."

The residential segment on the other hand is inundated with unsold inventories and may take a longer time to see growth – especially in the Tier I cities. With several projects being stuck for want of liquidity Arya says that lending to developers at the current juncture is a good opportunity. However she feels that debt opportunity may not last long.

Good growth

With a view to exploiting this opportunity, Milestone has launched a new fund for residential projects with a life of 3.5 years, recently. It expects to rake in ₹500 crore and will have a hybrid portfolio of investments both in debt as also in equity across ongoing projects. The equity portion will allow the fund to get a part of the upside when the realty market takes a turn. Some of the



247 HCC, Mumbai:

assets have already been identified. Having worked with good developers like Tata and Godrej in the past, she feels that getting good assets will not be a problem. The first closure of the residential fund, expected at ₹120 crore is likely to be announced shortly. Tatas have come in as anchor investors in the fund.

Arya, who has roped in two professionals to manage the funds, does a fair bit of travelling, she travels on an average of 10-12 days a month.

Initially investors, especially new investors would like to meet the promoters to get some comfort. "After the 247 Park exit, there has been some amount of interest amongst the investors," she confides. Milestone which has been largely tapping investors in the top tier cities, is also looking at going in the Tier II and III cities. "The next growth will come out of Tier II cities," claims Arya, who recently visited Kanpur and was surprised at the depth of understanding amongst the potential investors. Milestone will continue its policy of partnering with institutions of repute, says Arya.

Another warehousing fund is also on the anvil. The relatively shorter period for setting up warehouses which are in good demand will help she says. Milestone is in talks for identifying a suitable partner.

Another commercial fund which may look at tapping domestic and overseas investors is also on the anvil. "The aim is to have an AUM of ₹6,500 crore within the next few years," says Arya. As and when REITs are formed, Arya says she is not averse to managing or setting up a new REITs Fund. Or even an NBFC for raising funds.

Given Arya's total commitment and the strong backing of the investors it may not be long before Milestone starts its next phase of growth.

♦ DAKSESH PARIKH

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A timely exit

(₹ crore)	Funds raised	Closing	Investment	Exit amount	% of funds raised	Valuation of undivested capital
Development funds						
Milestone Domestic Fund I	219	Mar '08	15	257	117	22
Milestone Domestic Fund II	398	Nov '08	13	397	100	117
Milestone Fund LLC	341	Mar '09	5	84	25	373
	958		33	738	77	514
Structured debt						
Milestone Domestic Scheme III394		Jan '12	9	202	51	330
Private REITs						
IL&FS Milestone Fund I	516	Mar '08	6	621	120	120
IL&FS Milestone Fund II	570	Mar '10	6	207	36	645
IL&FS Milestone Core plus						
Retail Fund LLC	100	Dec '11	1	14	14	159
	1,186		33	842	71	934
Portfolio management services						
Milestone Bullion Series I	330	Oct '10	389	118		Fully exited
TOTAL	2,868		55	2,171	76	1,768

Knight Frank Valuation adjusted after capital distribution made post 31st March, 2014