

Private equity funds look for stable government, clarity in policies to give a boost to real estate sector

₹1L cr in realty looking for a way out

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Mumbai: Close to Rs1,00,000 crore (around \$16 billion) of private equity funds is locked in the fund-starved real estate sector as hundreds of projects have been delayed across the country. Investors are now struggling for an exit.

Over and above this investments worth around \$1 billion are waiting to be deployed in the sector as the fund managers continue to scout for "quality" projects to ensure a steady cash flow for their investors.

The sector now pins its hopes on a stable government in New Delhi that could drive up the market and bring in a new policy framework.

Ever since banks dropped developers from their client list a few years ago and reduced exposure to the "risky" real estate sector at the behest of the RBI, the sector has been at the mercy of private equity (PE) funds. The PE players raised huge funds from the domestic market as well as foreign (offshore) markets promising their investors

attractive returns. In return, developers who sourced funds from PE players are doling out a steep 20-30% interest to the funds, making their projects expensive.

Navin Kumar, executive director, fund raising and investor relations, Milestone Capital Advisors, a leading PE player in Mumbai, said there is a fair bit of euphoria now at the developers' end. "They hope that there will be improvement in policy and guidelines that govern the sector. Once a national regulator is in place, companies hope that they would get funds from banks at a cheaper rate. Right now, nine out of 10 developers are in a stress situation," said Kumar.

Milestone is in the process of raising Rs500 crore from the domestic market.

Interestingly, it will add to the over \$1 billion (around Rs6,000 crore) that is waiting to be deployed in India's real estate. Several PE players that raised funds over last one year are still scouting for projects, according to industry officials.

They point out that 85-90% of projects is delayed way beyond their estimated timeframe, making them a risky investment option.

According to Venture Intelligence, a research firm that tracks PE funds' investments into real

PE players raised just about \$292 million through two fund raising, but several of them are either in the process of raising fresh funds or close to initiating the process.

Essel Financial Advisors and Managers (EFAM), the private eq-

two in the National Capital Region (NCR) and one in Mumbai

Though the overall picture continues to be grim, some PE funds have smartly exited from their investments as well. For instance Milestone has exited its investment in a commercial property in Pune for about Rs145 crore. The firm held an undisclosed stake in the project which was sold to a high-net-worth individual (HNI).

Similarly, Essel successfully exited from one project in March where it had invested Rs75 crore in a residential project by Ariisto in a Mumbai suburb of Vile Parle around 18 months ago.

Viren Jadhav, MD of EmerCorp Capital, said that funds worth over \$1 billion are waiting to be deployed in India's real estate. "A stable government will mean stability in the sector, and sentiments will improve tremendously. It will also push several projects to move faster towards completion. It can definitely give an exit to several funds stuck with their investments," said Jadhav. Turn to p14

Top 5 by Volume

- ASK Group
 - India Infoline RE
 - Xander
 - Avenue Real Estate Fund
 - Red Fort Capital
- (2011-2014 YTD)

Top 5 by Value

- Blackstone
 - HDFC Venture
 - Xander
 - Red Fort Capital
 - Kotak Realty
- (2011-2014 YTD)

Fund Raising

CY	No of Funds	Size (\$M)
2014(YTD)	2	292
2013	16	3090
2012	27	7105
2011	16	4225

Source: Venture Intelligence

estate, the last three years have seen a steady flow of PE funds into the sector. In 2012, a record 27 real estate-focused funds raised a whopping \$7.1 billion. In 2011, they raised another \$4.2 billion through 16 funds and in 2013, \$3 billion through another 16 funds.

The year 2014 has so far witnessed a slowdown in fund raising.

uity arm of Essel Finance, is raising two funds — a domestic fund of Rs500 crore and an offshore fund of \$200 million (Rs1,200 crore). Abhinav Bhushan, head of private equity, told dna that they are fortunate to identify assets that have given them good returns. Essel has already made investments of Rs180 crore spread across three deals —

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According to Bhushan, the new government should accord real estate sector an industry status. "The government should also streamline the approval process and provide a single-window clearance for projects. This will help facilitate supply and lead to price correction wherever it is necessary," he said.

Of late, the rupee volatility and the political uncertainty had made fund raising a tad difficult for PE funds. "Offshore is not a good market now. Many expect the rupee to strengthen once there is a stable government in place. A stable government or a visibility of it will change the sentiments dramatically," said Kumar of Milestone.

Ajay Piramial-owned Indiare-it Fund Advisors, a leading player that manages over \$1 billion in real estate assets, has delayed its \$250 million overseas fundraising plan by six months, according to Bloomberg.

"For project developers, there are only two options available to give PE funds an early exit. One is to get funds with cheaper interest rates through renegotiations. The other is to raise funds through sale of units/flats and pay back PE investors. While the first option is rarely at work, lack of sales has shut the second option completely," says an industry expert.

Banks have begun funding selectively but have restricted it to construction finance. They are still not financing land purchases as it is viewed risky.