

VC Circle

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Milestone Capital tweaks new fund strategy, launching \$85M residential-focused realty fund

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Milestone Capital, which had proposed to launch a commercial real estate focused fund, has tweaked its strategy and is now launching a residential property focused fund targeting a corpus of Rs 500 crore (\$85.45 million), a top company executive told VCCircle. The fund will open for subscription within a month.

The company has changed its strategy based on feedback from investors, market condition and performance of commercial real estate in India.

“Commercial properties have not appreciated as much as expected. There is a huge demand-supply mismatch in the commercial space and each of the sub sectors has shrunk over the years,” said Navin Kumar, executive director – fund raising & investor relations, Milestone Capital Advisors Pvt Ltd. He also said that he does not see commercial realty picking up before 3-4 years.

The fund is reaching out to its domestic investor base to raise the money. It will deploy a combination of debt and equity to finance residential projects.

“A major portion of the fund will be deployed as structured debt and up to 25 per cent in equity transactions. Second rung developers generally prefer to go for debt transactions,” according to Kumar.

The company will chase investments in Mumbai, Pune, Delhi NCR and Chennai where it will come at a stage where all the approvals are in place and cash flow has begun in projects. The ticket size of the investments will fall in the range of Rs 25-50 crore. “It is easier to create exits from small investments,” he said.

The fund will have 7-8 projects in its portfolio.

This marks the company’s first fund after the demise of its founder Ved Prakash Arya in a freak accident. Currently, the company is spread largely across three broad investment themes—yield, development and mezzanine.

As part of its yield investments, it has a JV with IL&FS investment managers which is primarily a REIT-like structure and manages IL&FS Milestone Fund I (Rs 525 crore), IL&FS Milestone Fund II (Rs 570 crore) and an offshore fund IL&FS Milestone Core Plus Retail Fund LLC (\$73.29 million).

Under its development investments, it focuses on affordable homes and warehousing and manages Milestone Domestic Scheme I (Rs 229 crore) and Milestone Domestic Scheme II (Rs 425 crore) along with offshore fund Milestone Fund LLC (\$75.30 million). Its mezzanine practice aims at delivering

equity like returns with debt like security managed under Milestone Domestic Scheme III (Rs 410 crore).

Exits and divestment strategy

In the last two years, the focus of the company has been to return money to its investors from its earlier funds. In an interaction with VCCircle in January this year, director and vice chairman of Milestone Rubi Arya had said, “We have a strategy towards building our portfolio and the first part of it is to return money to our investors from early vintage fund.”

This financial year, the company is working on creating exits to return Rs 750 crore to its investors. In the coming three months, it is aiming to give Rs 300 crore back to its LPs. “We are working on seven-eight exits across properties in Mumbai, Kolkata and Bengaluru. By the end of this financial year, we are aiming to pay back Rs 750 crore to investors,” Kumar said.

Along with creating exits from vintage funds, the company has also developed and put in place a strategy for divestment going forward. The company will start working on exits 2-2.5 years into the life cycle of the fund.

“We have realised that divestment cycle has gotten a little longer, so it makes sense to initiate the process early,” he said. Going forward, the company will simultaneously work on exit strategy while deploying rest of the fund.

Fundraising environment

Thumping victory by BJP-led NDA has pepped up investor sentiment across the globe and it is expected to lead to fresh inflows into the country.

A slew of funds focused on residential real estate are out on the road to raise money. Essel Financial Advisors and Managers (EFAM), the private equity arm of Essel Finance, is raising two real estate-focused funds – a domestic fund of Rs 500 crore and a foreign fund of \$200 million (Rs 1,200 crore).

Red Fort Capital, which is in fundraising mode currently, is chasing to raise \$750 million-\$1 billion. This will be its third real estate dedicated offshore fund and mark a record amount as the target for any single realty fund to date.

Recently, Motilal Oswal Real Estate, the real estate arm of Motilal Oswal Private Equity, made the first close of its second real estate dedicated private equity fund at Rs 225 crore (\$36 million). IDFC Alternatives raised its maiden domestic fund while Kotak Realty Fund closed its offshore fund.