THE TIMES OF INDIA

Nov 7, 2014

Are projects backed by private equity investments safe?

Private Equity (PE) funds, especially in Real Estate, are long term funds with investors committed for a long period. They generally invest in projects either as an equity partner or as a debt. Apart from infusion of capital they also bring global expertise in different domains.

According to Om Chaudhry, MD, FIRE Capital, "PE firms typically provide capital to developers through different models. Several funds have a long list of services they provide in addition to mere capital allocation. They help in creating value through their investments which enhances the developer's credibility and efficiency."

Debt investments are generally made for a short time as compared to equity. According to Parry Singh, co-founder and Sr MD Red Fort Capital, "Debt type deals motivate developers to deliver on time. While the equity investment time horizon is 4-6 years, debt investments are typically for 2-3 years. In India approvals take the maximum time, once that is addressed, times lines are mostly adhered to."

Speaking on how private equity investment in a project safeguards the property buyer's interest, Lalit Kant, executive vice president-Real Estate, Arthveda Fund Management Pvt Ltd chalked out a list they consider prior to investing. These include:

- Documents to ensure the project has clear title of land
- Title is transferred in the name of the SPV (Special Purpose of Vehicle), where the fund proposes to invest
- A proper due diligence to confirm that land location and dimensions are as per the agreement. It should be possible to get the approvals for the proposed construction within the anticipated time frame
- A detailed market survey conducted to confirm the prices at which the sales can be estimated along with the current rate of absorption in the micro market
- The developer has the requisite background, experience and resources to complete the project with the planned specifications

Khushru Jijina, managing director, Piramal Fund Management, says, "We do a great amount of due diligence on both the partner as well as the opportunity in question. We also follow this up with internal and external checks from a fiscal (financial), legal and title perspective."

At present they are managing more than Rs 1,00,000 crore investments and therefore have already established relationships with many development partners across multiple transactions. That being said, every new relationship and transaction is still subjected to stringent underwriting norms and an independent in-house risk assessment matrix that prescribes scoring guidelines. "The internal rating system has a direct bearing on the returns that we expect from a transaction or development partner. We also stress-test our assumptions to forecast various scenarios that may unfold during the tenure of the investment so that we have identified and mitigated all the risks associated with each transaction," adds Jijina.

PE firms generally have more than one real estate project in their portfolio. Hence, with an active model they can use their learning from one project in the execution of another. On the whole, it also works to the customers' advantage as he is assured of his investment and product quality.

As the PE investments are for a specified tenure, they strive for timely completion of projects through adequate financial back-up, high efficiency and timely execution. Thereby, they help in reducing the chances of delay in the completion of a project.