Deal Fix – Real estate funds sprout

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Greater deal momentum last year, in all likelihood, will spill over this year. Rumours could account for a significant number of announcements this year which should reduce the 2014 bias.

1 Alternative no more!

Alternative investments are mostly seen as a supplement to stocks and bonds; among these real estate accounts for the largest chunk. The obvious reason is diversification – stocks and bonds do not provide the inflation hedge that real estate investments can. Studies have shown that there is significant positive correlation between *direct* real estate investment and inflation. It is important to note the use of 'direct' in the former sentence, as real estate investment can be through other instruments such as REITs, which do not share the same correlation. The other major advantage with such investments is the strong cash flow that funds can generate through lease and rental payments. All the above seemed to have existed for quite some time, but we've noticed a sudden flux in the number of real estate funds being setup, even domestically:

a. *AXA Real Estate raised €1.5 bn for a debt fund.* The fund provides exposure to high yield fixed income investments, especially when bond yields are heading down.
b. *Indiabulls Asset Management Company aims to raise INR 1,000 crore for its first real estate fund.* The firm is targeting investments in the residential projects in five cities, where demand has traditionally remained high. Also, the investments will be structures as fully secured non-convertible debentures, which quarterly returns to investors.
c. *Kotak Realty Fund is planning to raise $250 mn to invest in affordable housing projects.* Contrary to Indiabulls, Kotak is looking at equity-centric deals. They aim to focus on projects that provide homes in the INR 30 – 40 lakh category.
d. *IIFL raised INR 1,000 crore for its second real estate fund, including INR 250 crore from institutional investors and HNIs who will co-invest.* They are looking to generate ~22 – 23% IRR for thr five-year fund, through structured debt transactions with equity upside for investors.

The reason for the flux in India, as highlighted by a PwC study[1], seems to be due to a structural demand/supply mismatch, where developers over the past few years were reluctant to take up new projects. With new demand and growing economic confidence, a recovery is seen imminent with firming rentals. Preferred financing for investment vehicles in India has involved debt, both local and international – this was primarily due to impending regulations that inhibited pure equity transactions. From the PwC study, an investor can look at nearly 25% return through equity, 21 – 23% through mezzanine and less than 20% through pure debt.

Another major development is the new REIT regime in India – regulators are still balking at its tax status, though. Moreover, a CMBS opportunity is taking shape – the only financing issue completed thus far

[1] http://www.pwc.com/en_SG/sg/publications/assets/aprealestemerging_2015.pdf

involves developer-issued bonds backed by rental income. This is very different to a traditional western issue where the CMBS is used to help mortgage lenders clear out mortgage inventories.

2 Residential sector seems overheated

Indian real estate investments are primarily associated with the residential sector; however, over the last few years, there has been a pickup in the office realty space – particularly Blackstone Group, which has over $1 bn in investments in the sector and is currently the Indian market leader in the space. But such PE investments are generally restricted to investments in the *opportunistic* and *value-added* real estate space. To explain further, real estate assets tend to be divided into:

a. *Core assets:* Investments in these opportunities involve a higher return from income and have low volatility in asset prices. For instance, rents from an office setup at a superior location which has high occupancy levels. Consequently, financing through leverage is relatively lower.
b. *Opportunistic assets:* These assets derive value from property appreciation. Development risk, leasing risk, high leverage are the typical issues noticed. Typical investment structures with minimal control and unsecured positions are common.
c. *Value-added assets:* These assets achieve a balance of the above classes, with moderate use of leverage. Examples include hospitals, specialty retail, low income housing and storage.

Blackstone in India operates in the *value-added* space – only operating assets and no developmental projects. However, the office assets carry significant leasing risk.

3 Snapdeal, Zomato: startups at it again!

Consolidation seems to be continuing in the e-commerce space – Snapdeal, with cash from Softbank, acquired online design and accessories retailer Exclusively.com and bought a stake in online product and price comparison firm, Smartprix.com. Also, the acquirer is looking to raise more money from Softbank in an upcoming funding round. The other major development was Zomato's US foray through the acquisition of Urbanspoon for $52 mn, apart from acquiring Turkish restaurant search service provider Mekanist. Also, Zomato, like Snapdeal, is looking to raise $100 mn in fresh funding. Some of the other deals include:

a. *Godrej Nature's Basket acquired online grocer Ekstop.* The deal value is estimated at INR 30 – 40 crore, including ~INR 10 crore of Ekstop.com's debt.
b. *Housing.com is in talks to acquire B2B real estate analytics provider PropEquity for INR 80 crore.* The target firm provides data analytics solutions for private equity real estate players, developers and financial institutions. They reported revenues of INR 13 crore with losses to the tune of INR 75 lakh in 2014.
c. *BookMyShow bought a majority stake in social media analytics provider Eventifier for $1 mn.* The target offers software solutions to track content feed on social platforms for over 1,500 clients.
d. *Foodpanda acquired online food order service provider Just Eat India.* As a part of the stock deal, the target will get a minority stake in Foodpanda. The acquisition gives Foodpanda presence across 200 cities and 12,000 restaurants in India.
e. *Uber is in talks to acquire Meru, while Olacabs is looking at TaxiForSure.* Taxi aggregators have been fighting for market share for quite some time now. The former deal looks likely given India

Value Fund Advisors, who have invested in Meru, are looking for an exit while Uber is looking for a radio taxi license through Meru.

f. *Mahindra Group acquired online baby products retailer BabyOye*. The acquisition is intended to increase Mom & Me's market share, as it competes with FirstCry.
g. *Snowman Logistics will acquire two food processing startups.* The details of startup names were not disclosed. However, it is reported that one of them is associated with cleaning and chopping vegetables while the other assembles sandwiches, burgers and buns.
h. *Google Capital acquired stake in property website Commonfloor.* The startup will invest in product technology and marketing.

4 NEED to KNOWs

a. *British insurer RSA sold 26% stake in Royal Sundaram Alliance Insurance Company to its JV partner, Sundaram Finance, for £46 mn.* RSA will clock a net profit of *£16 mn from this investment.*
b. *Infosys will acquire automation technology provider Panaya for $200 mn including debt.*
c. *Malaysiam healthcare provider IHH Healthcare and TPG Capital are vying for a controlling stake in Global Hospitals.* The private owned healthcare chain is valued at $350 mn; the founder and Everstone Capital are among those selling their holdings.
d. *Pfizer will acquire Hospira for €15 bn.* The target manufactures generic injectable drugs and copies of biotech medicines.
e. *Intel will acquire German network chip maker Lantiq from Golden Gate Capital and Deutsche Telekom.* Intel is looking to expand its range of chips used in IoT devices through this acquisition.
f. *Yohoo will spin off its Small Business unit comprising its 15% Alibaba stake.* The new business unit is aimed at helping small business set up and run businesses online.
g. *Hutchison Whampoa will acquire Telefonica's British O2 unit for £10.3 bn.* The deal indicates a valuation of 7.5 times EBITDA, and will involve an all cash transaction of £9.3 bn with the other £1 bn dependent on certain cash flow targets.
h. *Yes Bank is leading the race to acquire Deutsche Asset Management's Indian mutual fund business for ~INR 200 crore.* Deutsche Bank's mutual fund business has ~INR 22,670 crore in assets.
i. *Amazon is in talks to acquire Israeli chipmaker Annapurna Labs for $370 mn.* Annapurna's investors include British chip designer ARM and Walden International.
j. *GIC and IFC will invest INR 1,600 crore in Bandhan Financial Services.* The target is setting up a new retail bank. GIC will invest INR 1,020 crore, with the rest coming from IFC.
k. *Samsung acquired LoopPay while Google is in talks to acquire mobile payments company Softcard for $100 mn.* Both firms are looking at providing solutions to compete with Apple Pay.
l. *Rio Tinto will invest $500 mn in a diamond project in Madhya Pradesh.* The firm is awaiting environmental approvals from regulators.
m. *US-based Silver Eagle Acquisition will acquire a stake in satellite television operator Videocon d2h for $300 – 375 mn.* This indicates a potential stake between 33.5% and 38.6%.
n. *Tata Sons will buy NTT Docomo's 26% stake in their JV, Tata Teleservices for $1.1 bn.* NTT had been looking for an exit due to dismal performance of the JV – its investment halved from $2.2 bn in 2009.

o. *British insurer Bupa will increase its stake to 49% in its JV with Max India.* Bupa currently owns 26% in Max Bupa Health Insurance.

5 Global League Table (as of 31 December 2014)

Value			Deal Count		
Rank	Name of the Bank	Value ($ mn)	Rank	Name of the bank	Deal Count
1	Goldman Sachs	939,899	1	Goldman Sachs	378
2	JP Morgan	697,890	2	PwC	365
3	Morgan Stanley	693,814	3	KPMG	324
4	BofA – ML	647,429	4	Morgan Stanley	285
5	Citi	619,544	5	JP Morgan	275
6	Barclays	528,937	6	Deloitte	267
7	Lazard	470,542	7	Rothschild	248
8	Deutsche Bank	440,912	8	Ernst & Young	241
9	Credit Suisse	365,552	9	Citi	236
10	UBS	245,378	10	Lazard	234

6 India League Table (as of 31 December 2014)

Value			Deal Count		
Rank	Name of the Bank	Value ($ mn)	Rank	Name of the bank	Deal Count
1	Ernst & Young	8,577	1	Ernst & Young	29
2	Citi	8,214	2	Avendus Capital	18
3	ICICI Securities	7,362	3	KPMG	12
4	BofA-ML	6,946	4	Axis Capital	11
5	Kotak Mahindra	4,768	5	PwC	10
6	JM Financial	4,352	6	Kotak Mahindra	9
7	M&A International	4,192	7	Rothschild	9
8	Evercore Partners	4,047	8	BMR Advisors	8
9	GCA Savvian Group	3,967	9	ICICI Securities	7
10	HSBC	3,864	10	JM Financial	6

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