CREDAI-MCHI Webinar: Key to the Lockdown – Episode 17 Presented by Deceuninck India and Godavari Paints Episode : 17

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Speakers: (1) Mr. Irfan Kazi, Chief Investment Officer- SWAMIH Fund
(2) Mr. Nipun Sahni, Partner- Apollo Global Management
Topic: Importance of Last Mile Funding in Project Completion

Moderator: Mr. Shobhit Agarwal, MD & CEO - ANAROCK Capital

Ms. Binita welcomed all to the Webinar

Ease session we are having, and thank you all the panelists who are joining us and its been the learning place and we are happy for having everyone's support and everyone keeps joining and intact on each of the Webinars. We had well interesting conversation we are going to have today and we are very distinctive and very learned panel with us, starting with Mr. Irfan Kazi. He is like everyone knows is the Chief Investment Officer of the SWAMIH fund. The SWAMIH fund was the something that the Government of India recently brought out to help the real estate sector come out of stressed situation that providing last mile funding. And he has joined the Investment Manager 2018. He has 23 years of International work experience and various facets of alternate investment such and sourcing, analyzing, recommending proposals, real estate and private equity investments. At the start of his currier in financial services Mr. Irfan was actively involved in managing IPOs and marked making on OTC exchange of India at Company such as Times Guarantee and Lloyds Finance. After starting 7 years in Dharna Investment Company, where his mandate was investment and managements of funds and alternative assets. Last 13 years he has been actively primary in real estate private equity investment, Asset Management companies as ICICI Ventures, AIG Global Real Estate India and L & T Infra Investment Partner and ICICI Ventures as Associate Director, Investment. He was responsible for Real Estate Investment and path, in southern India and I was told that he was Senior Vice President and Head of Investment. Key Investment Role is raising 2 international funds aggregating USD 450 million for investment in hospitality and warehousing sector. At L & T Infra as principal he helped, raised and managed 594 crores domestic infrastructure fund AIF and later ideated and created high hill real estate development portfolio. Irfan has a bachelors degree in Electronic Engineering and a Masters in Management studies from Jamnalal Bajaj Management studies and he is a Indian Chartered holder from ICFA Hyderabad and he has been awarded as CFA of Chartered holder of USA.

Apart from that we also have Mr. Nipun Sahni, who is Partner of Apollo Global. Mr. Nipun Sahni joined Apollo in 2015 as partner and he is responsible for the Real Estate Investment business in India. He is part of the Asia Real Estate team that is responsible for real estate across Asia, prior to that from time to time 2011-2914, Mr. Sahni was the Founder of GE Zone Investment Advisor, Boutique Investment Advisor, Zee firm focused on Indian Real Estate from 2006. 2010 Nipun was a partner Managing Director at Merrill Lynch and Investment Team Asia.

Prior to that Mr. Sahni was a Managing Director at G Capital India and help multiple ropes during this period including Real Estate Investment Infrastructure Finance. Mr. Nipun is nominated as the Chairperson of the Indian Real Estate Advisor Group at IVCA by the Industry, and is the member of the Core Committee that presents the private equity investment community in the country.

And I think the best person who will be moderating this session, which is primarily on how to bridge the gap for last mile funding in Real Estate in India is Mr. Shobhit Agarwal, and I am sure, he is feeling extremely in the spot right now for this moderation and I think what I can say for Shobhit very confidently he is a friend, philosopher and guide. He comes of as a MD & CEO of Annarock Capital market, but I think, heart and heart of this person is to go to everyone has a challenge and when everyone wants their way out in life. So I don't think Shobhit wants me to read his entire profile, so I also restrained from that and I hand over this session to Shobhit.

Mr. Shobhit Agarwal
Thank you Binita, you made my day, I am feeling happy and chirpy in these times. Somebody and everyone to all the listeners, I think they are about 400 or more people. Just for my privilege to have Nipun and Irfan both. It's a very very special day. I think I was told, this is the 17th session that there is lot of issues have been discussed as on the economy, the impact of economy on real estate. So we will keep the session more focused around financing and whats the impact turn financing and how we will solve it. Binita just introduced and we have very two very distinct people on the panel. One Nipun works with GE, Merrill and how Apollo manages large pool of International capital and has a very different prospective from Irfan who is managing the sovereign fund, the first sovereign fund and it's a very specific mandate to do what it has to do. let me just start with Irfan, I think he is the man of the spotlight today.

Irfan, can I just start with 2 things, one is if you could decode SWAMIH, what is it? Is it that people have to pay to you to get the money or does it mean everything else and second what was the genesis of this fund, why did government do this and not anything else like there were about 500 things that could have happened. So what was the whole purpose of starting up SWAMIH in the first place. I think our listeners would love to know all of these are largely in my view developers from different parts of largely MMR. So there will be people from all over the place, trying to understand what SWAMIH can do? why was it created and what can it do?

Mr. Irfan Kazi
Thanks Shobhit and Thank you CREDAI-MCHI for giving me this opportunity. Very clearly the fund was set up to complete stalled projects. That's nothing new that I am saying we had done a market study, the industry has plagued in this problem for some time now. And its only after we did a market study, we could quantify the numbers that the extent of the problem played out and therefore, the need for the solution was required. And therefore, since the government is providing a suggestion and solution, it was also felt that it has to be a comprehensive solution. It has come after some time and therefore it cant be a piecemeal measure, it cant be one step solution and therefore, it needs to be a comprehensive solution and that made to a idea if a last mile fund that will come in. What the talk that it is there to complete the project. In terms of the need there are very public numbers now, I run the most public private equity fund ever. There are 4 ½ lakhs incomplete units 1509 projects, most of these units are stalled in places like NCR and MMR. 40% are in NCR abour 20-25% so are in MMR. But the talk is the cities, to get the account by 80-85% and therefore the problem is both large in scale and strangely localized.

The effort from the Government was not while talking to the developers understand this bit that the fund is setting in to provide relief to home buyers. It is not setting into re-finance that and therefore it cannot be finance dead, its not stepping into provide the equity to the developers, providing funding to the developers. It is very clearly stepping into bit the project and that's the whole mandate.

Mr. Shobhit Agrawal
This funding is for only mid income and affordable housing and that's the whole genesis and its not so we do luxury.

Mr. Irfan Kazi
4-5 points very quickly, one its for affordable and mid-income housing. We defined it on the basis of size as well as price. The emphasis while determining both the size and criteria was to ensure that the maximum number of projects meet the criteria. So, we did a back study and we see about 90% of the total projects meet the criteria. So as far as the price is less that 2 crore and 1 ½. Crore and 1 crore depending on the geography where you are in and the size is less than 200 sq.mtrs. is about 100 sq.mtrs. more than most of the houses I have stayed in. as long as it meet the criteria is qualified as affordable and mid income. So that's one. The second criteria the project should be 30% complete, the project should be RERA registered, and the funding is last mile funding and the funding is for projects which are cashflow positive or net worth positive. So for the first time ever we use this terminology of net worth, which the finance guys understands is applicable to the company, which we used it to applicable for the project. so as long as the cost to complete the project is less than the in flows that are available. The project is net worth positive. With those kinds of criteria if the projects meets all these criteria we can fund them.

Mr. Shobhit Agarwal
Absolutely, this was good sort of summary, 5 things that qualifies, in my view its very refined mandate by the Government to say mid to affordable housing, size of the project, value of the project, completion milestone and of course customers should be there and RERA registered. One quick thing Irfan, before we move to Nipun does we actually started to deploy and what's going on that side. Only in October, if I am right, 7th October I thought it started to deploy.

Mr. Irfan Kazi
It's announced on 7th November, we did the first c SWAMIH losing on 6th December and in the 4 months or so we will have absence then we have taken 40 deals with the investment committee process. 6 deals have got final approval. 31 deals have got initial approval and various stages of the due diligence process we speak, and that's that. In terms of deployment, deployment is subject to the final approval and in terms of final approval we will say that there are may be 2-3 condition presidents that have to be made before the funding actually starts. And actually those CPs are beyond our control. It something that the developer needs to do. so I can look at the bit of home work that I have finished and report back to people like you that we have given final approval to 6 projects.

Mr. Shobhit Agarwal
Thank you Irfan, that's a very very good summary of SWAMIH fund. Nipun I will come to you, I think you been sort of investing in Indian Real Estate for funding in real estate for say about 15 years, Pre -GST, Post – GST, Pre-ILFs, Post-ILFS now Pre-COVID, I am sure you have done

anything Post -COVID, so whats your take on the sort of sentiments of foreign investors, are you going to continue to deploy and how is it changed for you. Is anything changed first of all, you been so disciplined about investing if done really would be right from the big one to small ones, you invested in hotels, invested in retail, SWAMIH fund mandate is very residential so in that sense if I am quite happy to have you on the panelist. What's happening on the SWAMIH fund side.

Mr. Nipun Sahni
Thanks for having me invited. Its good to know there were other 17 sessions, so I think a lot of already been talked about with, so for the audience I don't know what we can be save after so many panelist in the past have really, already spoken, including people like Mr. Parekh, but let me start by saying, I was feeling very disappointed in 2019 to be part of the real estate sector. And we were getting hammered from everywhere. There was demonetization, there was RERA, GST, ILFS, so the every crisis was impacting the sector and so now you feel better that all sectors are with us. There is no sector which is now left of this crisis, which clearly state that and telecom will probably in a deep shape last year. But I think now suddenly we have company but on a more serious note I think the sector has been trying to reach out to the regulators as well as the government through various other platform including CREDAI, NAREDCO. So through various real estate and non real estate platforms, basically seeking solutions and I think its now at that moment and crescendos coming up, I think which was getting kind of push back by the regulators and others but you can increasingly see that with all other sectors impacted and anything kind of coming under this COVID umbrella, finally the time you cant keep the cant down the road any further. Solution have to be found, everybody is back, to the wall including probably the government and I can see the lot more sense of urgency to rather just debate the problem but there is the problem or is there not the problem. Half the time the debate was just on that part, the sector said we have a problem and the regulators others probably felt, no no there is no problem, you guys can figure it out. But I think now everybody is trying to collectively figure out the solution, there is more dialogue, trying to find out some middle ground, one time restructuring situation which has come, is definitely helpful and that was the big solution that came for the real estate sector, in terms of may be the right word not the restructuring but I think there was Commercial Real Estate was allowed. Some sessions by the bank and NBFC that we extended to NBFCs and it was the last week. The SWAMIH fund was another pool of capital to creating liquidity to solve last mile financing issues. And I am sure there are few steps which are underway, even literally I will speak in the next few weeks and part of some of those distance and I think there should be more coming to just elevate the concerns on the sectors but frankly I think what you cant resolve is the collapse and demand. You know the demand collapse because of COVID and the impact that will have a whole new dimension which is got added. Lot of things are really happening on the supply side. Supply of money, I think that hopefully can ease out if the government can increase the limits on whatever are the existing limits I think that will be a big relief for liquidity to the sector. If the customers hopefully keep paying, you know once this moratorium is over that would be huge relief the customers can. So this is very very complex problem. I don't think any of us including myself is an expert who can really save how this will all play out. I think its just perspective but what you can do is you have to really manage 2 things on immediate basis. You have to manage whether it's a real estate or any other business, you can manage your liquidity and you can manage your leverage. So if you can managing these 2 things, then you are basically at least you have a chance to file back and I think every body needs to contribute to the solution between Governments, Regulators, PSU Banks, NBFCs, Funds, Developers I think it's a time that the

industry has to work together like never before to try an come up with as many solutions as possible because if not now? When? And when do you stand up to be counter us?

Mr. Shobhit Agarwal
Nipun I am going to pick up those threats that everything else is quite kind of predictable accept sales. When the sales are going to come back and somebody has to future it because that is the revenue stream. Which we all are underwriting to. So how you would look at it now? If there is the last mile financing proposal, what would be the top 3 or 4 things that you would look at before saying, yes or no.

Mr. Nipun Sahni
I flip the role, I will become the moderator and we will ask you the question because you are Mr. Annarock and nobody knows more about residential, real estate sales in Maharashtra than Annarock. There were no developer, no government so may be we should flip the question. Its tough, but I will give a short, will give you my perspective but you have a lot of data points internally its till early days and the crisis are going to be tough today. You are in the first month, may be of a lock down. But I think how the coming months pan out lot of speculations but why don't you take a short on it and I will add.

Mr. Irfan Kazi
Shobhit, I just can come to your rescue if I know he just put you on hot seat but just responding towards Nipun I just mention, it will take some time, demand will languish and sales will take some time to come back and therefore, how do you keep yourself constructively employed. By progressing with construction. So, I think this is a time when funds like us that have this very very specific mandate will use this time constructively and I am playing with words obviously or trying to that we will proceed with construction and then we will wait for demand and sales to catch up.

Mr. Shobhit Agarwal
So you are saying, you are underwriting Irfan, If I simply put it for the audience, who are listening, you are saying you are willing to wait out on sales as there no pressure from sales and that while you are underwriting the project, you are assuming no future sales or no collection from sold inventory and to ensure that there is enough money for closure or up to the closure of the project. is that ok.

Mr. Irfan Kazi
The strange thing when we were doing that all in our proposals, you know everybody thought that you are being unnecessarily pessimistic and probably nature of the people in the team and so on. We were assuming very very low reliance on receivables as well as sales. We were assuming that sales will take at least a year or more to catch up. And therefore, the funding we provide will not be reliance on cash inflows from any other source. And therefore, we were looking at funding 90-95% of the cost to complete when they asked to us very strangely was to provide for that capital is 20-25% of capital. And some how, it seems like that might be the only way going ahead.

Mr. Shobhit Agarwal
So you are saying only it's very simpler getting equity more to like at project where you don't depend or you don't even forecast the sale or revenue when the project is under construction,

you assume that all the revenues back ended and therefore, whatever money is required is assumed that bank or the fund, who will provide that's the only way to go forward.

Mr. Irfan Kazi
Shobhit, that is the starting point, rather that is the target we try to achieve, but then we have to step back a bit, you know make certain allowances, assume for certain receivables, assume for certain sales because otherwise the project might not be able to take interest of that funding. So the idea is not to prove that it cant be done. And therefore, we will have to make investment calls and that's where our role comes in. Even with sharply defined criteria make investment calls to try and pick up the deals that you can do.

Mr. Shobhit Agarwal
I have 3 more questions that are pertinent, Irfan more for you, saying when you say close of construction, do you assume just CC or do you assume the cost right upto formation of society, because most of us when you forecasting, we are saying completion is defined that when you get OC and not may be the end point of the project.

Mr. Irfan Kazi
We are not constraining ourselves to an OC milestone we are saying that whatever needs to be completed before the home buyer can move in, so everything is included.

Mr. Shobhit Agarwal
2 questions I am getting already on the chat one is two challenges they are saying due can you elaborate, to get NOC from the existing lenders and number two what happens to cancellation. Our request that come in because the project have been stuck, can we use the money that we draw from SWAMIH fund for paying out to grieved customers?

Mr. Irfan Kazi
I would answer the last question first, our idea to step in and complete construction of the project it is not to step in and provide refund every customer who wants it. The idea should be that the majority of the home buyers get the home that they were planning to buy. So while we paying some RERA liabilities, we cannot completely provide for cases where there is 100% cancellation, there is large amount of cancellations. So that is the liability that's almost an open liability that we get in bit but everything else is well covered in terms of providing for the capital to complete the construction.

Mr. Shobhit Agarwal
What happens to existing lenders? Because when you talking about last mile, you typically have projects that are stuck for shortfall of money but they are the existing lenders on it. What you get NOC from them?

Mr. Irfan Kazi
So we are doing two things, one we are saying that last mile funding necessarily has to be senior funding, we are not rewriting the book here, that is the most obvious task from any last mile funder, internationally as well. So there is nothing new here the last mile funder requires senior charge, requiring senior charge would means that some of the existing lenders cede charge. So they have 2 options, one to complete the project without our funding, don't cede charge, complete the project without our funding and I am happy to say that we have been catalyst

from some prior days. That we have completed homes without providing a single rupee of capital. Because we said we are willing to funding and therefore the bank said let us do it. Rather than ceding charge that's good. So if we measure outcome like we do on number of homes completed for every rupee of capital deployed. Here the returns are infinite so that's one. Two there are lot of banks, there are lot of NBFCs and have begun the process of ceding charge, that have ceded charge, we got that all the 6 deals we have completed we have the underlying a lended that has ceded charge. So where this is a reality that the existing institution isn't going to do the incremental financing and you wont like the status quo to be there and you would be like the future difference from the current status quo. You would want someone to come in and complete the funding. Banks and other financial institutions have ceded charge.

Mr. Shobhit Agarwal
So you are saying there is a willingness that starting to build up, in the beginning there was resistance but now people are understanding it and most current lenders are willing to cede charge or they are willing to do the top of funding.

Mr. Irfan Kazi
We are seeing incremental movement at that direction.

Mr. Shobhit Agarwal
They are incremental so obviously there are resistance but its changing. Quickly moving, I know while this question answers there is just chat box sort of building up Nipun I just coming to you, I think what I heard Irfan say is one of the genesis of the fund was some 4,50,000 units stuck in 1600 projects, I am assuming this study was done pre-Covid, pre-March, my sense is that this number is incrementally going to be increasing, whenever the results are out from our squad which means June quarter at the moments its looking like banks will give out the results and my sense is that there will be further NPAs and further projects like this. I don't think just one fund, which is SWAMIH, which is enough to take care of all 1600 plus this retail plus there is office and so many places and he said RERA compliant, how do you see this opportunity, how you could take advantage of it. Will you go more towards residential, would you go more towards offices and of course there is big sections are getting left out is mid to luxury income housing. Because the fund doesn't allow you to do. and I am talking 2 crores that really out of South Mumbai, Central parts of any cities going to be missed out on this. How do you take advantage of this situation?

Mr. Nipun Sahni
So there is no formula Shobhit on this. There is each solution, each problem is going to be different. Each developer would have challenges at the industry levels. Yes, there is fundamentally sales issue, if you keep using conventional rules of using the same type of funding from NBFC or bank, you have to put all creative solutions on the table and I think what we and most foreign investors try and do at least the solution capital. Solution capital has no formula. We have no formula, we have to be first in last out. Last in first out. I think the question is number 1 in any project, the project comes secondary. According to me the most important thing is with whom you are doing business with? Who is the Developer? What is the credibility of the developer? What has been the track record for the developer asked whatever time frame 5-10-15 years? Have they been able to deliver in the past and in this is a small crisis which has come now or you know how does the track record play out. And that is fundamental to coming out of this crisis. Ultimately, it's the customer who has to buy the units, which are

unsold, we can build these units, we can complete these, but ultimately the demand side equation is going to be very critical and where will demand go. Specially in a situation like this there are existing set of buyers who might be stuck in projects and they are committed to that hopefully and they don't have cancelled, if you look into incremental buyers, I think two things are clear, they were already in play pre-Covid. So I think the key is that the trend of buyers gravitating to higher quality developers in each city was already under way. The trend of buyers gravitating to projects which are complete or nearing completion was already underway. That will only accelerate as and when the customer comes back. Developers with the track record and projects which are nearing completion, you are going to see maximum traction I think come in that product. And if that is the case I think for investors, like our sales, our approach is solution capital. Can you do across the few projects, do you like to take out lenders because we have got cases. Yes, every lender might want to take out some money off the table. But can the project cash flows really support all this. And I think that's how, its like a suite you can go and buy it from the shelves, if you have standard size but that doesn't happen. More often than not you get in to customed tailor to do what you want and that is the kind of capital that players like us tells and players who are flexible capital, because we don't have regulatory constraints, you have banks and NBFCs you have to sit and stitch the suite.

Mr. Shobhit Agarwal
Excellent! That brings me to a point where I know SWAMIH cant do this but can you provide capital or in situation like this where people are talking about consolidation, that lot of projects may change during this time and may require some kind of acquisition funding. It may be small amounts not that you want to buy land, which is completely green field but it requires that kick start and mobilization money will you provide, will you look at situations like that with fair good developers, I am assuming that this is sort of pipe for the music, its moving towards better developers, well governed, well respected, who manage their cashflows well but requiring external help?

Mr. Nipun Sahni
Yah! I think it will happen, its natural, it was already under way. I think all accelerate, it was already happening transactions where developers were stretch for selling out to bigger, better players and doesn't need to be bigger, better necessarily but even if small players were solvent and may be had the credibility. But yes, more often than not we are only a financial investor not a strategic investors and don't have any development expertise, so if developers are trying to acquire projects whether its office, whether its residential or even could be retail in today's environment because there is stress on those assets too, if those kind of projects and nothing of this can be short term. You don't need 6 months, 12 months solution of capital. You need 3-5 years solution capital and I think, that will definitely accelerate after this. Stamina in the sector, would be at a phase that the sector is not seen as long as the developers community within themselves are willing to step into other projects. There is been a version because everybody has their own issues and their own projects. Nobody really wants, who I haven't seen nobody developers stepping in to say if some other developers project have a problem let me go in and solve it. We saw few of them, we saw few of them where coming in as DIM or JDs etc. but I think that is one of the solution because you don't need only the financial capital to resolve but you also need execution capability and credibility. The biggest thing is the credibility factor with the customer and the entire ecosystem. So, players who have that once if they have the confidence, then I think its not going to be happened in a rush. If they have the confidence to come in, they do have their partners as capital we have partners in almost every city. And if

those development partners finds project exciting, there will be capital to back them and I can tell you that there is lot of liquidity available globally and there will be more available not less. The question is how much of that is India ready to take and does the government ease up the guidelines because right now I think, there are still certain restrictions where you cannot do certain type of transactions but that will be very important and what more important thing for other investors with SWAMIH fund which already has that under the bankruptcy law the lender who provide last mile financing, even in a bankruptcy situation should be treated as the senior most lender. As per the current bankruptcy norm its silent and what it inclines is in the absence of a creditor or a clarification on the law you can be pari passu. You might think you have done senior secured financing but the legal view is that a project or a company goes into bankruptcy then that will again become pari passu with the senior lenders. So, the same benefit which has been extended to Swamih needs to get extended to all investors, looking at last mile financing and senior financing but if it is solution capital resolving some other part of the capital structure like Equity I think that will work

Mr. Shobhit Agarwal
Nipun you bring out a very important point thanks for the clarification and I am going to bring Irfan right in what is going to happened in case a project funded by Swamih fund goes into a NCLT you still get priority? It in this specific for Sami fund or is this the general law

Mr. Irfan Kazi
Absolutely, it is it is an amendment to the IDC act and it's specific to the Swamih fund.

Mr. Nipun Sahni
That is exactly what I'm saying, it is specific and if government and the sector it is not a small problem, it's not a 25,000 crore problem it a 2 lakh 50 thousand problem, it's 10 times that problem. Over whatever time frame so that's the size and scale of the issue. Why not let that benefits available to all funds. Because ultimately that is how our capital structure is supposed to work where the senior most part of the capital structure gets paid out as per the inter creditor and the capital stack. Not allowing the capital stack to function and because you're not allowing the capital stack to function. That's why you have not seem more capital coming into the market.

Mr. Shobhit Agarwal
Yes, you are absolutely right Nipun, but my hope was that Swamih will pave the way for last mile financing, I think they have already done where at least the current senior lenders have started to recognize that there is the last mile financing people that are required NOCs started to come and my guess is that IBC has to recognize and hopefully will recognize that's one request.

Mr. Nipun Sahni
I think all I do is he needs to do is very simply say we will respect the Inter creditor whatever the lenders and the incoming capital agrees respect that if it is you make everything senior you make everything senior, if it is you splited 80/20 you splitted 80/20 you can have a formula for respect the Inter creditor it's respected in every jurisdiction. Whether it's the US, UK, Germany other markets all these countries respect The Inter creditor agreement and that's all we need to do and I think You know given the scale of capital needed you need to come out with

Innovative things and amendments because to the traditional sources of capital will not suffice to solve the need for liquidity and the complexity that we find ourselves in.

Mr. Shobhit Agarwal
Nipun as I said this is a very close group of developers and the questions, I can see the chat box filling up and One of the questions is how should we think about funding rates, interest rates, processing fees and how fast can transactions can be done in this environment. I mean, would you be able to, I don't want to say it is Apollo but as a body we able to right deals in next six months. I want to pause from 3 months and then start and one of the panel saying dollar denominated money is looking at 15% dollar return which is roughly 20% - 21% in India rupee return is that would you agree with it or what's your view on this.

Mr. Nipun Sahni
I think India has a risk premium because it has a currency historical depreciation on the currency 4% - 5% we just have to factor it. Unfortunately the hedging costs are high. We've already seen a sharp the appreciation happened in the last few weeks. Only 15 billion dollars left India 52 to 18 billions because of stock markets and you see the currency slip few percentage points markets are shallow. Foreign investors most of them do take care of the currency issues. I think again, there is no one pricing, there is 14, 15, 18, 20. Who needs the money? And for what? How do you structure the money? How much should be coupon? What is the equity upside if any left in the project? Yes, this is not the environment for equity transaction not only in India but worldwide the volatility is too high and the bid-ask spreads are too wide between the seller and a buyer who realistic colleagues think that in the next couple of months any equity meaningful, equity deals can get done because there's so much uncertainty that you really can't price it and the sellers might not want to transact given it's like a distressed situation. So, hence again, you're kind of constructing a transaction based on no fixed coupons or some down side coupons with three of sides I think is they will have to be creativity and solution around it. But yes for the first dollars of capital will end up going to the more kind of credible guys bigger relatively bigger players if they are not able to access capital and I think MNA is the phase after that. However, if people recognize that it's time to just move on and get out of projects and be realistic around pricing. Then there are it's already happening in developed markets. We ourselves are part of some transactions in countries, which are may be facing similar situation and lenders who are dealing with bankruptcy issues to buy assets in which case if those conversations are people are believed to have that, then there could be pools of capital but not for every asset classical. I don't think there's any available for green field respect this point in time. But if there is brownfield risk or completed assets which are because even asset sales will play a role in generating liquidity. If you have to pay twenty one percent interest for five years for twenty, some percent interest, then is a developer just selling some other asset and generating liquidity through that truth may be at a lower valuation that what was saying January or February or do you go with the high cost financing. That the decision which each developer will take on their own but I think more than the cost. It's the availability of capital which is more important. I think capital can get deployed at most costs, I think there are takers, I question is, are you able to access the capital almost I think cost is important, but I had the second part of the discussion.

Mr. Shobhit Agarwal
Absolutely, just moving back, Irfan on that point when I spoke to Nipun on interest cost. What's the interest rates is that is it a prescriptive or even in your fund, it is subjective to say we deal we have in different interest rate.

Mr. Irfan Kazi
So let me just start from the beginning of the Swamih fund is different, right? It is more of an impact fund rather than a commercial private equity fund and that's where the differential treatment or the justification for the differential treatment comes in. So we are senior we are insisting on coming in as senior, but just look at what we are doing right our emphasis is as much on the social impact that we are creating as the return that we are trying to generate for our investors and there is a reason for generating the return because we want to attract even more capital to create a greater social impact. Now what we are saying is we are going to complete construction of projects. So many of the projects that we are looking at our stalled for the last, let's say 8 to 10 years. So we have saying complete the construction of that stalled projects and then we will take a sales risk. We wait out for the next four to five years to try and get a capital back. We are also saying that we look at deals across the spectrum from 5 crores to 4 hundred crores for a single project. We are saying that we look at geography across India. So we look at tier 2, tier 3 and even smaller places and as long as you know in our analysis the project cash flows are positive, we will fund the project. It would be difficult to get a fund which will promise you, you know, at least a couple of those three four things that I mentioned. Then coming to the kind of return expectation we have so we are now effectively saying that our funding is priced at anywhere between 40% to 50% it is entirely backend it. So that all inflows will be used for construction only. I am not being repetitive, you know, that is our objective. So all inflows from receivables and from incremental sales which in any case we are assuming will happen after the project is completed if at all they come in, they will be used for completion of the project.

Mr. Shobhit Agarwal
Does your completion include the premiums in case of Bombay and Maharashtra? There are lots of emails to be paid to the government at different points of time?

Mr. Irfan Kazi
You know rather than being confronted with 100 questions that in is our architectural fees, construction payments are marketing and brokerages charges, construction payments and so on we had chosen to define construction as all payments are not related to repayment of financial liabilities. Everything included. It's a comprehensive definition which becomes comprehensive for the fact that it that is defined by exclusion, if it's not related to payment of financial liabilities in a project. It is considered as project related expenditures something that we could fund coming back to the cost of our funding. We are now saying that our funding will be at 15% RR that 15% will get reset to 14% if the project needs the business land targets that laid out the start of the project in consultation with the development. So it's entirely possible that our funding will be of 14 percent, RR funding in some cases it would be you know, we are going to use the standard rate of cross products, so, you know admittedly the risk profile of projects is different but we are using the same rate across projects. The funding could be at will be at 15% which will get it reset to 14% when the project needs the business plan criteria will evaluate this on a quarterly basis. So on every quarter with decide the rate applicable for the quarter going ahead.

So that I think is the whole picture that that you should be considering when you look at, should the project, should the fund have senior funding or not

Since we're talking to people since our listeners are mostly in MMR, two very specific questions that are coming in. Would you fund Slum Rehabilitation Project which is a very popular scheme in Bombay and Pune SRAs and you know, you see them starving some money. So that includes their rents include rehabs construction costs. Would you look at SRA that is number one, that is possible? and number two, I don't know there must be some people outside of Bombay the saying HIRA be consider as RERA which is the specific question that's coming from somebody. I guess being projects in West Bengal.

So the quick answer to the second question is the fund has a mandate to RERA registered projects. Answer your first question. One of the deals that has got final approval is a SRA project. So any SRA project will have a sale component and as long as it has a sale component we will be willing to fund the project.

Mr. Shobhit Agarwal
But not the cost that is associated with rehab?

Mr. Irfan Kazi
Obviously, we are looking at the cost of rehab also when we consider project cost the entire cost of rents, construction of the rehab potion and anything else, you know construction of let's say the nursery school, temple or whatever is required as part of the rehab agreement will be consider. This is a great thing for Maharashtra,

Mr. Shobhit Agarwal
Alluding to Nipun's forecast which also believe that, you know projects will gravitate towards big developers, it is very difficult to do a JV, JD sort of deal because it involves a stamp duties any movement of immovable property will included so people are doing DMs as a midway solution to this. Would the DM fee be allowed as part of project expenses?

Mr. Irfan Kazi,
So terminology, you now the solution captive, right, we will try and find solutions for anything and everything, so yes DM fees will be considered as part of project cost. Now the only discussion that will happen on a deal by deal basis is you know, what extent will the DM fees be up fronted and to what extent will they be junior to pay out us to the fund.

Mr. Shobhit Agarwal
So you are saying they will be some adjustments that you require but very much possible.

Mr. Irfan Kazi,
So depending on the numbers payout in every project there will be some, you know, shades to that colour. But as a rule we are already looking at projects which have DM arrangement.

Mr. Shobhit Agarwal
What I have sort of taken away from this this conference this webinar is you are saying capital is available in plenty, you know, both domestic and international. But you are saying Swamih of course has a is like a Nipun said with foreign capital and Apollo you can actually sit and figure

out if the solution works and if it works then (A) Capital is available (B) The pricing will be decided based on the risk that's there for naturally it is going to be more expensive than Swamih fund which is a government initiative. I am going to leave some time because there's going to be loads of questions that are coming in Binitha you want to take some questions you have about 15 minutes, I think loads and loads question are pouring in.

Ms. Binitha Dalal
Thank you so much guys. I think that's very informative both the Nipun and Mr. Irfan. I think it's an eye-opener because I think today if you look at the anyone perspective. Everyone is looking at last mile funding because once you get back to work you really want to know how to fund your project. So just a question of what is the mind set change that code is a have work on your last mile funding, how are you guys looking at it in times to come because I think of biggest question that everyone has is that you know, once viability comes in they need money to finish the project. So all are actually going to look at the Swamih Fund as well as you know, people are looking at last mile funding through the FDI approved, so what is you guys will look at when the time's come and going forward?

Mr. Irfan Kazi,
So strangely, you know unlike everybody else there is not going to be a dramatic change where we look at projects. We were anyway, considering a discount to the achievable price that the you know, some kind of a weighted average price that was achieved in the last one or two years before the project came to us. That situation is you know, what more needs to be done on that front. We were and even assuming that there are going to be little or no seals when the project is completed. We were anyway assuming almost, you know, Reliance to the extent to the 10% or 20% on receivables and that's about it, right. So there not going to be a significant difference in our underwriting in the post Covid era strangely but you know, If you are strange zero sales, you can’t make it negative sales, right, to some extent you could provide for some refund and that’s all. I don't think much is going to change in terms of the we would look at the projects.

Irfan would you allow let say Apollo how’s on the webinar to co-invest with you? Would you that be allow? And Nipun would you like to co-invest with Swamih because get it IBC protection such a strait mandate you know, money is always not enough, right? So he is got twelve and half thousand and right now it can go up to twenty-five thousand. But if you allowed to co-invest invest may be that's the solution to say look more money can come in for in captivity co-invest with Swamih and that they get a larger part. They can invest a more projects?

Mr. Irfan Kazi,
We would Welcome, you know other funding sources to come in to act as may be pseudo Equity or something like that to leverage all the capital that we are providing and you know, if it helps the project and the developer so be it.

Mr. Nipun Sahni
So it is going to be different for different investors. I think it is a product which is most for sovereign fund and passive we are in active manage ourselves we kind have a mandate issues from LPs, if you have a fun raise for continental thing, can you allocate to other funds who are doing stuff, but you need a different pool of capital. Then just attracting of on fund and so all transactions, I think it's more rather than coming to the vehicle, they are ways to collaborate at

the transaction level. At the transaction level 1 is that whatever they fund is doing that sufficient and but in larger deals whether concentration risk issues because of the size of a transaction. I think that's much kind of higher chances of collaborating in deals which have larger value because the funds like ourselves a few others are one of the challenges is that deal sizes should typically be on the higher side, there's no number but you can't do 30, 40, 50 crores transactions. So if deal sizes go kind of larger and there are concentration things which you want to diversify whether it's with Swamih fund, whether it's lot of without other domestic colleagues in the industry, I think those solutions will come the you will see that happen, may be not immediately, but you know as this goes by as Solutions are needed for larger deals. There will be more room to collaborate. I think on those stuff.

Mr. Dharmesh Jain
One key role I think we look at it as MCHI. This is a new immerging fees for all of us and, there are obviously going to be structural issues at all levels. So one key dialog we feel is going to be required is the understanding with the existing lender. I think we as MCHI would love to you know, sort of see how we can work in establishing understanding.

Ms. Binitha Dalal
I think Dharmesh bhai is trying to say that a lot of project are not able to get NOCs from lenders, so I think that is one of the reason also even a swamih fund is not able to do it’s full potential. So I think he want to take up MCHI is kind of work as a bridge between the lenders and projects which are in Swamih Fund?

Mr. Dharmesh Jain
Second is again with the Government and third is with RERA so I think again with RERA there are these issue, so if you look in the preamble of RERA is clearly to complete projects, so I think any last mile funding comes in the key would be as I think, you also rightly mentioned your big concerned would be the outflow on account of refund and interest so probably, you know a dialogue with the government that once there is last mile funding coming in can the payments to for refund and interest be back ended again, or till the completion of a project? So that is one other I think we need discuss with the government. So what we would want to do is as you know, sort of take away from this come up with point is that we need to take up with RERA with the institutions and with the government and sort of you know, circulate note which can be a working note for projects going forward.

Mr. Shobhit Agarwal
So, Irfan is there any specific challenges that you do want, I mean what CREDAI is saying that we have to take some of this not specifically for Swamih Fund for last mile funding through your experience of looking at 300 - 400 deals. What are the some of the common challenges that are coming up which CREDAI can champion in terms of talking to RERA Authority, talking to institutions lenders or even IBC, I think one issue that can Nikunj talk about is IBC.

Mr. Irfan Kazi
So while IBC is an issue understand that you need to correlated to the fact of the mandate of the front. Like I mentioned things like stalled projects the fact that the these projects are located anywhere in India the fact that you know, if we are not talking of doing deals in some certain Sweet Spot we are saying in deals anywhere from five to Four Hundred crores the fact that we are not going to particularly at this is a very strange thing for a private Equity Fund to say, but

let me say, we are not going to be particularly choosy of the kind of promoters that we are dealing with because we are in enforces that are home buyers as long as there is a quantum of home buyers that need a rescue package we can come in, right, it is for all these reasons that you need a special treatment. So when you are treating something special you need a special treatment is my very humble submission here you would be glad to have co-investors in an easy way to co-investing these way is coming into our fund, right. So that's another way of going about it. There are challenges. There are significant challenges. Most of these projects are stalled. And therefore there are NCLT. There are consumer redressal forum proceedings that are going on. So that's one. Just heading superiority in NCLT is not a solution because only protects our capital our emphasis is not on protecting capital. Our emphasis is on completing home buyer the homes for a home buyers. So if the company we are financing that goes into NCLT and therefore the project is stuck for anywhere from one to three years. You know while our capital is not at risk at all that half of objective is being unmade. Our objective is to complete homes for home buyers, right? That's where the fund comes in and that's where the fund has special status. So what do we do? Some cases will insist that the project we are transferred to an SP so that even if the parent company or the rest of the group most through NCLT proceedings that proceedings would not have affected us but will definitely affect the underline home buyers. So we want the project to continue and to insulate itself from that NCLT rest. There will be a cost associated with it, and therefore we are willing to find that costs as part of the projects. There are other issues like RERA penalties. Again, we will have solutions which will be both simple and you know might be cumbersome to impose but will require solutions. We cannot have a you know, get into a project where the project gets stuck because of RERA liabilities coming up because of interest because of refund coming up and so on and therefore small number of home buyers get a solution, there is a large number of home buyers are stuck in the project. So therefore will have building solutions like signing of supplemental agreements and so on. Now, these are very very comprehensive measures, you know one very common reference to me is but no one has ever done this before, right, and you're right, no one has ever done this before.

Mr. Shobhit Agarwal
Thank you and a nice. I think that's quite a clear you saying look there are things that are around each case, specially with REAR and all, there are certain challenges, but I think each case is getting add and out.

Mr. Irfan Kazi
This funding is not in terms of RR we are targeting. The way to look at it is in terms of the number of home buyers that we are providing a solution to. So for example that deals that we've currently taken through the icy process allow for completion of about 40,000 homered. That's the yardstick that we are tracking.

Mr. Shobhit Agarwal
You are saying it is really looking at home buyers is not so much developer financing. It is more a homebuyer sort of rescue.

Mr. Irfan Kazi
The emphasis is not on returns. The emphasis is only on project completion.

Mr. Shobhit Agarwal
One of the questions I have got from the panel is why projects over 2 crores not being rescued are in the same boat. I mean, so can it increase the limit increase to three or four or five, more expensive why should the benefits only go to the suburbs?

Mr. Nipun Sahni
May be Shobhit, you can suggest government, MCHI can suggest Swamih Fund in every state. May be that's the solution for Covid.

Mr. Shobhit Agarwal
I know, it is the good solution I think.

Mr. Nipun Sahni
That is the risk of completion and you have let's say forty thousand and five lakhs buyers for more you can do few more such points.

Mr. Dharmesh Jain
In fact that is the suggestion we can strongly take up with the Government. That the limit has to increase to five crores from two crores rupees.

Mr. Nipun Sahani
And also the size of the funding.

Mr. Irfan Kazi
I understand the motivation. There is a meaning attached to the phase affordable and middle income, we were trying to quantify that meaning when we set out the limits. There is a significant so, you know, it's basically how much capital should go where and therefore the capital can be used to solve 90% plus the problem, that's a great start.

Mr. Shobhit Agarwal
So really the bottom of the pyramid more sort of you can solve more number of units at the lower base, of course, that's a fair comment and given that the government owns said I can understand where they're coming from. You're leaving the luxury for foreign funds.

Mr. Irfan Kazi
And we would be glad you know, these thinking always was it would be great if there are more fund that are come in especially from the private sector with this kind of social impact objectives, right, which is the funding is that is price in the mid-teens or lower and the well the emphasis on completion not coupon rates and so on.

Ms. Binitha Dalal
Nipun I also want to understand from you, what is it that Apollo will be look at post Covid in terms of a mind set of approaching the project? Any changes in underwriting principles?

Mr. Nipun Sahni,
There will be I think it's to be honest, you know, everybody's trying to figure that out, you know all the earlier assumption, you know, you can question every single thing so it's very fluid. But clearly I think you'll take each situation as it comes from Bombay is different from

Bangalore and Bangalore from Chennai and each market each developer. So I think our style has never been broad brush. Our style is never be generic where one size fits all, our style is always be what is that Micro Market? There are micro markers that we were not touching even pre Covid because there were just no sales happening or they were, you know, just so many players in that Micro Market that, you know, the supply far exceeded the demand. So I think at the same time developers will also have to take a call Post Covid which if you have type projects going on, how do you prioritize, can you shift to your buyers to something, if you know, even the buyers will hopefully have to be explained and accommodative like because it is you have to question almost everything and I think when you do that if we are looking at any project, I think the key thing there is ultimately are the buyer going to come and buy and is the cash flows going to come and other returns going to get made for that if you assumption has to be around pricing , you will question pricing. And I think that is an area where collectively all developers will have to give it a thought as to is pricing going to impacted because of Covid or no or it is just capital can solve the problem. So if you just put in capital in make it buyers will be there maybe not in every case. And on the second side the government is already reduced the cost of capital to incentivize the buyer the interest rate do they play out? So I think we will be looking at all these signals for the projects including pricing and how the existing buyers are behaving in the first place. Yes, hopefully the existing buyers are those who are still committed and continue paying I think that is a few dimension which is got added which wasn't the case earlier. Even if you take a period of time of a year till you don't see any new sales or maybe but hopefully the existing buyers will continue and the collections of that is one Matrix, which one would definitely look at that house that we're having and you're not seeing negative sales. And on the second side is going to be pricing and then overall the leverage how long can this project support that kind of leverage? Whatever the cost might be.

Mr. Shobhit Agarwal
First of all, thank you Nipun and Irfan taking out time on a Friday evening to talk to all of us. All our listeners are the developers I am sure they have benefited from your very valuable advice. What I have taking away is there is enough money and liquidity for different situations and no one side size fits all so different people will have to approach different buckets of capital what Swamih can do perhaps Apollo can't do. What Apollo wants to do perhaps Swamih will not do and therefore, these are mutually exclusive pools of capital and you have to respect their mandate and say okay this I fit into this mandate and therefore approach that sort of funding and there are multiple choices Swamih of course is very unique because it's the only sovereign front of India, only setups real state. So guys you put away with something nice saying, you know government is listening to you. It's a large amount of funds that are available twelve and a half thousand crores, deployable, can be raised up to twenty five thousand, if it's required I am sure they will put in more Money, but please just to get one last message across Irfan has said it several times that this funding is being measured on how many home buyers they rescued not how many developers they rescue. So the focus is towards low and middle-income housing and to make sure that the buyers who have stuck get their home, get the roof that they had cooked many years ago, sometimes he said 10 years with that. Thank you guys. Once again, thank you for being on the panel over the you.

Ms. Binitha Dalal
Thank you. Mr. Kazi I think it immense learning for everyone from the fact that I think as CREDAI-MCHI and as Real Estate fraternity we will very happy that we have someone who actually taken up this role to and for all our projects can do fair last mile funding. I am sure

there are problems that we all come into in this entire Journey but I am sure jointly like Dharmesh bhai as put across issues to come together and make representation so that you know, everything including the NOC part, the are RERA, the regulation part we can work jointly and make those amendments so people get their last mile funding going forward.

Thank you Mr. Nipun Sahni I think very valid points also from the fact that you know, even as fund all are looking at some amount of IBC protection for last mile funding which is a very very important part for anyone who's looking at coming into this business in India, and absolutely appreciate Shobhit your entire mannerism in which you have done this session its immense learning with every time that we have you and like I said, you are a friend, philosopher and guide to almost everyone in real estate. So thank you so much for being there all the time. Thank you everyone for watching and we hope we could cover all your questions and answers. Sorry if we missed out some of the points, but, we try to get most of the content if it is short while. We look forward to seeing you again in the next webinar. Thank you so much everyone.

Thank you and stay safe.