Case Study

A Multi-Billion Dollar Real Estate Fund

Service(s) offered: **Fair Market Valuation for FEMA Compliance**

Sector/Industry: **Real Estate**

Arriving at the Fair Market Valuation of a Real Estate Fund for Compliance purposes

Our client, a leading India focused real estate fund (Client) backed by one of the U.S.'s largest banks, makes investments in commercial and residential properties across several metropolitan cities in joint partnership with major developers across India.

Investments are made through a plethora of Special Purpose Vehicle (SPV) by equity or quasi-equity instruments such as Compulsorily Convertible Debentures (CCDs), Compulsorily Convertible Preference Shares (CCPSs), and more.

For its several investments across India, Nexdigm was retained to conduct a fair valuation of the investments in Residential, Commercial & Hospitality projects.

Approach

Our approach was bifurcated into the following phases:

Phase I - Understanding the Business and Industry dynamics, which included:

Understanding regional Real Estate industry dynamics and the Project in its context

Holistic review of the project business plan based on parameters such as cost, revenue estimates, and cash flows

Phase II - Evaluation of Valuation Methodologies and final Valuation, which included:

- Scrutinizing the Share Subscription Agreement and Shareholders' Agreement (SSA & SHA) to identify the economic rights of the Client and the Developer
- Valuation of the Joint Venture/Investment instruments.

Phase I - Research

We started the assignment by understanding the regional real estate dynamics, which included the analysis of:

- Project location
- Historical and projected market/price trends
- Key economic factors that drive real estate markets
- Demand-side parameters like growth in population, households, and jobs
- Supply-side parameters like new projects, inventory, absorption and pricing, leasing rates, etc.

All the details regarding the project and assumptions were encapsulated in a comprehensive model. The model detailed all cost and revenue assumptions as well as the project cash flows. After conducting a thorough math and logic check of the model, we recommended changes and proceeded with a critical review of the key assumptions:

- **Land**: Acquisition cost, payment terms, permissible FAR, transfer cost, etc.

- **Costs**: Approvals and construction timeline, Benchmark key per sq. ft. hard and soft costs, etc.
- **Revenue**: Saleable Area, Sales timeline and projected selling rate, etc.

Phase II – Evaluation of Methodologies and Final Valuation

We then conducted an in-depth review which encompassed a careful consideration towards Share Subscription Agreement and the Shareholder's Agreement specific to the Project in order to identify economic attributes of the investment, such as:

- Details of investments including mode of investment (equity shares, CCPS, CCDs, etc.), number of tranches, conditions precedent and subsequent to the tranches, investment timeline, etc.
- Distribution clause
- Exit clause

Based on our review, we evaluated the cash flow distributions attributable to the various stakeholders/waterfall distribution. Further evaluation into the project was conducted using both traditional and modified valuation techniques.

Impact

After reconciling the valuations under the various methods, Nexdigm concluded that the CCM method using the EV to Stabilized GMV multiple was most suitable to arrive at the fair market value. We presented our findings along with the valuation conclusion to the Client in a detailed valuation report.

Nexdigm’s passion, commitment and innovation, enabled us to develop a strong partnership with the Client based on trust and reliability.

For more information on this case study, please write to us at:

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You can also visit our website to know how our services resulted in tangible business benefits:

www.nexdigm.com