

Indiabulls, IIFL to raise \$500 million offshore capital via Mauritius

The two firms will use the funds to invest in residential projects in India; the tenure of funds is likely to be 5-6 years



Both companies have incorporated entities in Mauritius to raise offshore capital for real estate investments. Photo: Ramesh Pathania/Mint

Bengaluru: Diversified financial services firms Indiabulls Group and IIFL Asset Management Ltd have incorporated entities in Mauritius to raise offshore capital for real estate investments for the first time.

These are probably the first instances of real estate fund-raising via this route after the recent renegotiation of the tax treaty between India and Mauritius.

Between the two firms, Indiabulls and IIFL plan to raise about \$500 million to invest in residential projects here in India. The tenure of each of the funds is about 5-6 years and targets an internal rate of return (IRR) of at least 20%.

Indiabulls Group has incorporated an investment manager called Indiabulls Asset Management Mauritius, an entity via which it will raise and manage multiple offshore funds. Its first fund will have about \$250 million in corpus and will invest in under-construction residential projects in the form of structured debt. "After the treaty renegotiation, Mauritius appears to be a better jurisdiction compared to any other at the moment, particularly for the strategy that we intend to take to the

market. Coupled with the fact that there is an established track record of private equity funds that are based in Mauritius, we therefore decided to use Mauritius for our offshore funds," said Akshay Gupta, group executive head and chief executive officer, Indiabulls Asset Management Co. Ltd.

Indiabulls will tap into institutional investors and family offices in the US, Europe, Asia and West Asia to raise the money. With the offshore entity, Indiabulls now has three differentiated routes of capital raising platforms for real estate from different investor profiles: domestic, non-resident Indians and offshore.

"We believe that Indiabulls Group presents a differentiated proposition for real estate funds in India and is quite unique and compelling for investors with respect to the capability and competency and the various touch points that we have established in the real estate sector over the last 15 years," said Ambar Maheshwari, chief executive-private equity, Indiabulls Asset Management, a subsidiary of Indiabulls Housing Finance Ltd.

Mauritius has been a preferred jurisdiction for investors, particularly for pooling vehicles looking to invest in Indian markets. However, over the past few years, many investors have moved to Singapore instead as clarity was awaited on tax issues between India and Mauritius.

In a significant change, on 10 May, the governments of India and Mauritius signed a protocol to their tax treaty, allocating taxing rights over capital gains to India in case of a sale of shares of an Indian company by a Mauritius resident. Withholding taxes on interest were lowered to a 7.5% tax rate. Therefore, while equity investments may need to factor in additional Indian tax costs, debt investments will likely get a boost from the treaty amendments, according to a research paper by law firm Nishith Desai Associates.

Another fund-raising initiative has been undertaken by IIFL Asset Management, which has set up IIFL Opportunities Fund 3, a fund incorporated in Mauritius, through which it will raise capital to invest in mid-income housing projects in India.

It plans to raise about \$200 million with a green-shoe option of raising an additional \$100 million from investors. A green-shoe option allows underwriters to sell investors more shares than originally planned by the issuer.

IIFL Asset Management or IIFL AMC will act as the fund advisor and IIFL Capital Pte Ltd, Singapore is the fund manager.

"We are looking at putting out secured debt, because the appetite for debt is more. It will be a blind pool fund-raising process and we have started meeting potential investors and distributors," said Balaji Raghavan, chief investment officer, real estate, IIFL AMC Ltd.

Blind pool fund-raising is a process where multiple investors pool in money

Analysts believe that with clarity and certainty in tax terms in Mauritius, foreign investments into India will get a big boost.

"This renegotiation should encourage those raising debt funds to look at Mauritius again, because of the lower withholding tax. We have to wait and see if those firms incorporated in Singapore also reconsider moving to Mauritius," said Ruchir Sinha, co-head, private equity and M&A at law firm Nishith Desai Associates.

Both Indiabulls and IIFL are simultaneously raising other real estate funds. Indiabulls AMC has started raising as much as `1,000 crore for a new fund from non-resident Indian (NRI) investors based in West Asia, Asia-Pacific and Europe.

IIFL AMC Ltd is also raising another `750 crore debt fund, which will be India's first Category III AIF (alternative investment fund) real estate fund. Category III AIFs are allowed to borrow from any lending institution for generating higher returns with cheaper capital, apart from tapping investors for money.