VENTURE INTELLIGENCE

Indian Private Equity Trend Report 2017

Venture Intelligence, a division of TSJ Media, is the leading provider of data and analysis on Private Company Financials, Transactions & their Valuations in India. Our research is used extensively by financial and strategic investors, the media as well as government/regulatory agencies. Our customers include leading Private Equity / Venture Capital (PE/VC) Firms, Limited Partners, Investment Banks, Law Firms, HR Services Firms, Corporations and Consulting Firms.

Our flagship product, the Venture Intelligence Private Equity Deal Database, is India's first online searchable database of PE/VC investments and exits. The database, with transactions dating back to 1998, features - apart from the basic transaction details – also features the company financials and valuation multiples. The Venture Intelligence M&A Deal Database provides access to Inbound, Outbound and Domestic deals involving India based companies since 2004.

Venture Intelligence Company Financials Search (CFS) database - which includes financials of thousands of Private Companies - helps users narrow down and compare companies based on their industry, financial information and growth criteria for Revenue, EBITDA or PAT using powerful search filters.

The APEX Summit is India's leading PE/VC Investor-Entrepreneur Interface platform where executives from leading companies from across sectors interact with PE/VC investors over structured panel discussions and generous networking sessions. The panel discussions, featuring a mix of Entrepreneurs, PE/VC Investors and Advisory firms, throws light on the latest trends in the PE/VC & Entrepreneurial Ecosystem in India.

Several leading Private Equity industry organizations have associated with Venture Intelligence publications and conferences including ICICI Venture, Ascent Capital / UTI Ventures, IDFC Private Equity, ChrysCapital and KPMG.

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PE Investments in India during 2016: 620 Deals, $15.2 Billion

Private Equity investors bet $15.2 Billion across 620 deals (and 585 individual companies) in 2016 making it the second biggest year for such investments in India (by both value and volume) after 2015 (which had witnessed $17.3 Billion being invested across 775 transactions and 683 companies). Note: These figures include Venture Capital investments, but exclude PE investments in Real Estate.

The India Private Equity Trend Report draws exclusively on the following source of information:

Venture Intelligence Private Equity & Venture Capital Deal Database:

- Listing of PE/VC investments and exits tracked by Venture Intelligence since 1998
- Each deal captures name of the investee company, its location, Industry & Sector it operates in, the investors involved, the amount and date
- Most transactions in the database include information on financials of the target company along with the deal valuation & structuring details
- Financial & Legal Advisors to the transactions
- Listing of PE/VC exits - both by IPO and M&A - with Return Details
- Directory of PE/VC funds active in India
- PE/VC-backed Company profiles
- Aggregate PE/VC statistics

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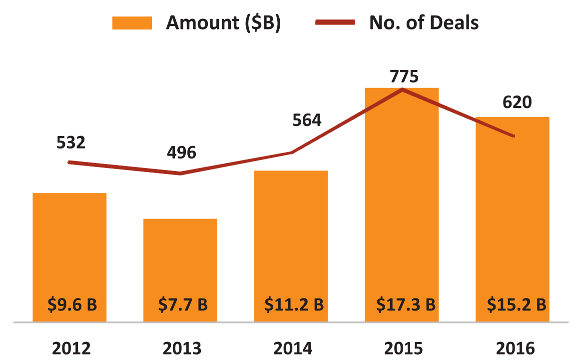
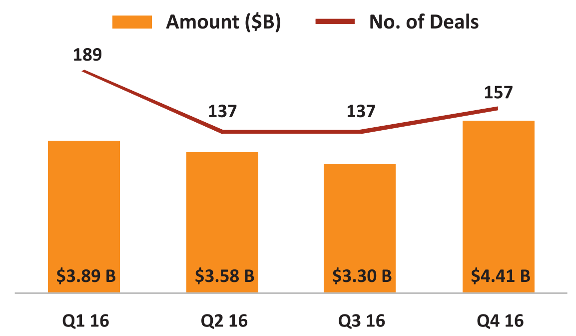
Private Equity Investments by Year



Investments by Quarter - 2016



Other Data Highlights:

- Buyout deals at an all-time high accounting for 29% of the value pie (compared to 18% in 2015)
- IT investments still top; but share of investment pie dips sharply to 31% (from 43% in 2015)
- Enthusiasm for BFSI investments continues; investments rise to 18% of pie (vs 15% in 2015)
- Canadian investors take the lead in infrastructure investments

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PE Investments in India during 2016: 620 Deals, $15.2 Billion

Top PE Investments*				
Company	**Sector**	**Amount ($M)**	**Investors**	**Date**
Reliance Infratel	Mobile Towers	1650	Brookfield	Oct-16
MphasiS	IT Services	825-1100^	Blackstone	Apr-16
Resurgent Power	Power	850	ICICI Venture, CDPQ, SGRF, KIA, Others	Jun-16
Bangalore International Airport	Airport	321	Fairfax	Mar-16
GE Capital Services	Financial Services	300	AION Capital, Others	Mar-16
Paytm	Mobile Wallet	300	SAIF, Alibaba, MediaTek	Aug-16
Sanmar Group	Chemicals	300	Fairfax	Apr-16

*By Reported Size ^ Final Size to depend on Open Offer

Top Investments

Canada headquartered investors dominated the list of Big Ticket investments during 2016: Brookfield committed $1.65 Billion to buy a 51% stake in telecom tower firm Reliance Infratel; pension fund CDPQ along with others invested $850 million in Tata Power's SPV Resurgent Power; while Fairfax Holdings invested over $300 million each in Bangalore International Airport and Sanmar Chemicals.

US-headquartered PE giant Blackstone concentrated its only investment bet in India during 2016 on buying out Hewlett Packard from its majority holding in listed IT Services & BPO firm Mphasis via a deal that would cost it between $825 million to $1.1 Billion (depending on the success of the Open Offer to other public shareholders).

By Stage

PE investors bet as much as $4.3 Billion to acquire controlling stakes in 27 companies - the highest ever tally for buyout deals in the country (surpassing the $3.2 Billion across 24 companies in 2015). Buyouts, which accounted for 29% of the total investment pie in 2016 (despite being only 4% in volume terms), was the only stage of PE investment to register a gain compared to 2015.

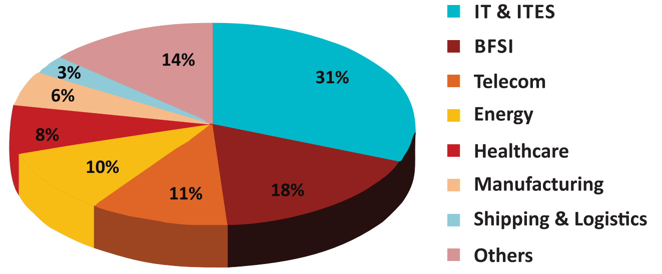
Late Stage investments accounted for 32% of the investments by value (about 15% in volume terms) in 2016. Venture Capital investments, at $1.44 Billion across 405 transactions, accounted for 65% of the pie in volume terms and 9% in value terms. Growth Stage companies attracted $3.59 Billion accounting for 24% of the investment pie in value terms (10% in volume terms). Acquisition of minority stakes in listed companies (“PIPEs”) accounted for only 6% in value terms, versus 11% in 2015.

PE Investments in India during 2016: 620 Deals, $15.2 Billion

By Industry

IT & ITeS companies, which attracted $4.4 Billion (across 359 transactions) in 2016, saw their share of the PE investment pie decline sharply to 31% (from 45% in 2015).

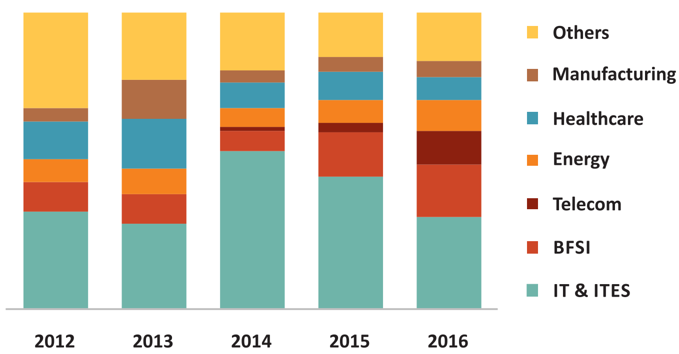
PE Investments by Industry – By Value



In continuation from 2015, BFSI (Banking, Financial Services and Insurance) companies emerged as the second favorite destination for PE investments in 2016 attracting $2.67 Billion across 53 transactions. The biggest BFSI transaction in 2016 was the $300 million buyout of GE Capital Services' Indian commercial lending business by AION Capital and former GE Capital executives. This was followed by the $265 million (INR 1,794 crore) investment by Temasek and KKR in State Bank of India's insurance arm SBI Life for a 3.59% stake. Microfinance firm Janalakshmi Financial Services attracted $210 million (INR 1400 crore) from investors GIC, TPG Capital, Morgan Stanley, while CDC Group invested $149 million (INR 1,000 Crore) in India Infoline Finance Limited, a subsidiary of publicly-listed IIFL Holdings Ltd, in return for a 15% stake.

On the back of the $1.65 Billion Reliance Infratel - Brookfield deal, Telecom climbed to third spot attracting $1.68 Billion or over 3 times the capital invested in 2015. Energy companies attracted investments worth $1.5 Billion (across 17 deals), a 13.17% surge in value terms compared to 2015. Resurgent Power raised $850 million in a round that saw participition from existing investor ICICI Venture as well as CDPQ and Middle East based Sovereign Wealth Funds (SWFs) – Oman's SGRF and Kuwait's KIA. Two SWFs – Singapore GIC and Abhu Dhabi's ADIA – teamed up to invest $230 million in the renewable power focused Greenko Group, while Essel Green Energy attracted $132 million from Dutch pension firm APG and cash rich Indian corporate Piramal Enterprises.

Share of Investments – By Industry (Value)

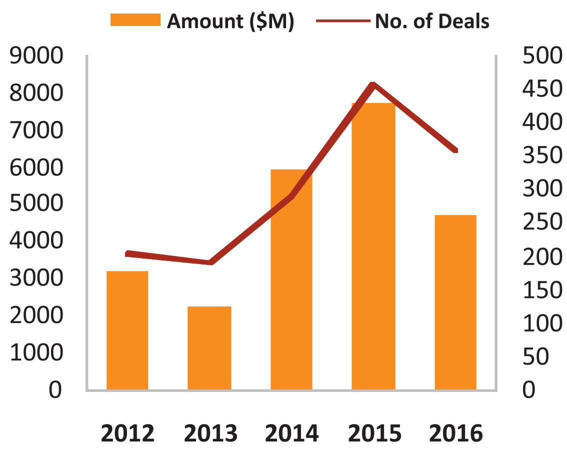


The $220 million largely secondary investment by the Abraaj Group in Care Hospitals topped the list of investments in Healthcare & Life Sciences – the aggregate investment in which declined almost 30% YoY. The next largest investments in the HLS industry were IFC's $75 million investment in listed drug-maker Glenmark Pharmaceutical's foreign currency convertible bonds issue and Quadria Capital's $71 million investment in Concord Biotech. Apartment from pharmaceuticals firms, the smaller investments in HLS were spread over companies operating across sectors like Diagnostics (like Vijaya Diagnostics and Suraksha Diagnostics) and Specialized Clinics (like Apollo Health & Lifestyle and Dr. Agarwal's Eyecare).

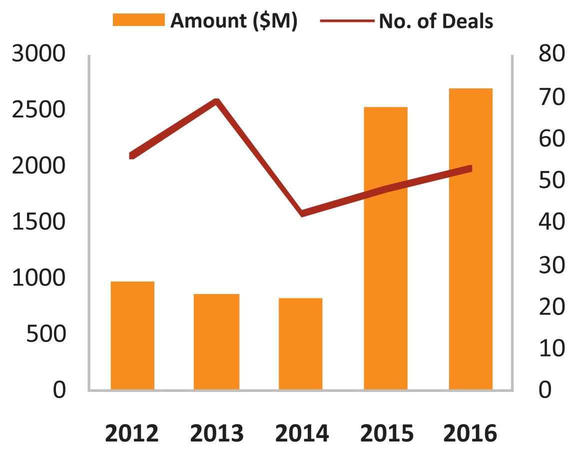
Chemicals, Automobile and Auto Components sector investments dominated the $850 million investments (across 28 companies) in Manufacuring. Investments in Education perked up largely on the back of the $142 million raised by app-based learning firm Byju's (across three rounds/tranches during the year from investors like IFC, Lightspeed Ventures, Sofina, Chan Zuckerberg Initiative and Sequoia Capital India).

PE Investments in India during 2016: 620 Deals, $15.2 Billion

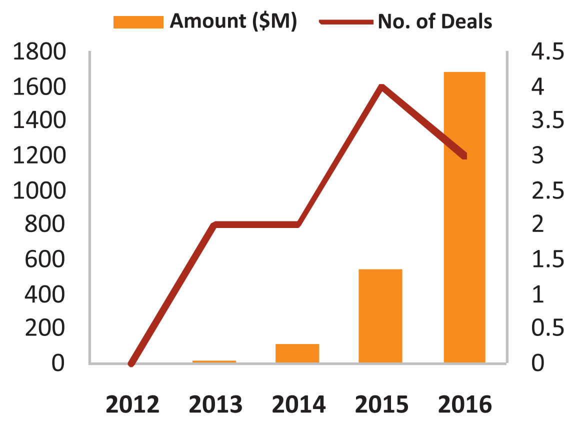
IT & ITeS



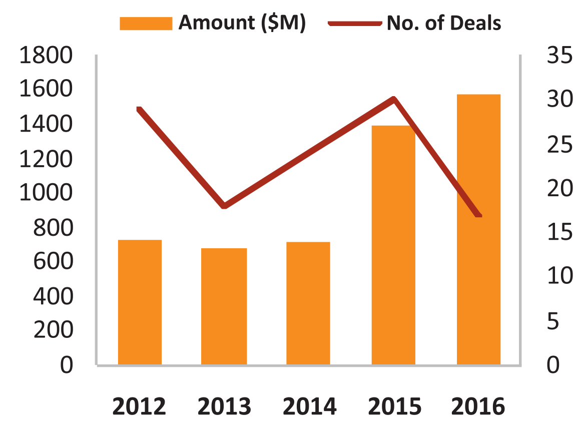
BFSI



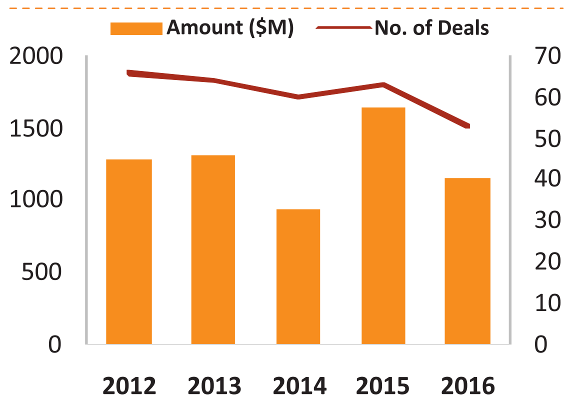
Telecom



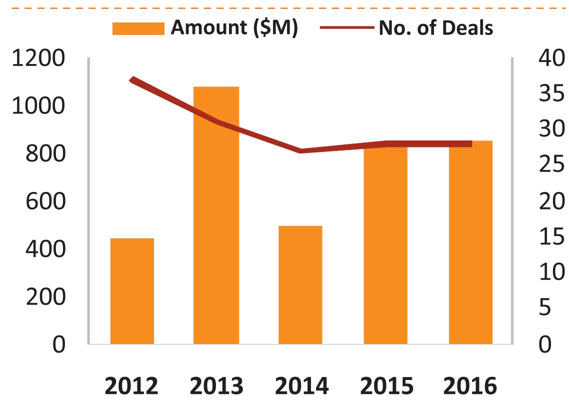
Energy



Healthcare & Life Sciences

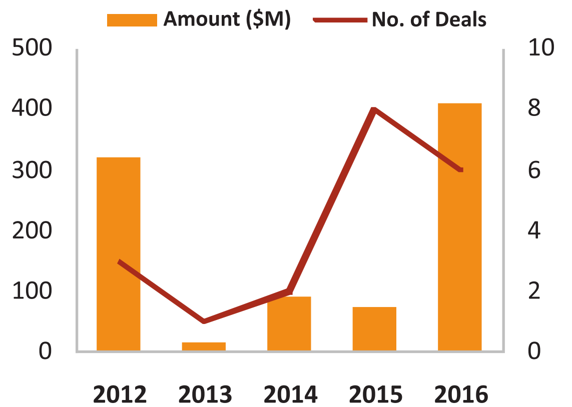


Manufacturing

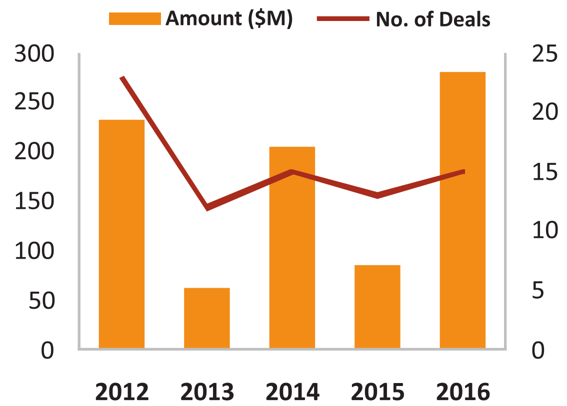


PE Investments in India during 2016: 620 Deals, $15.2 Billion

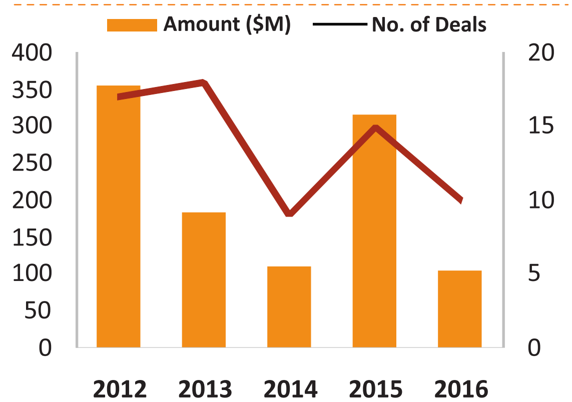
Travel & Transport



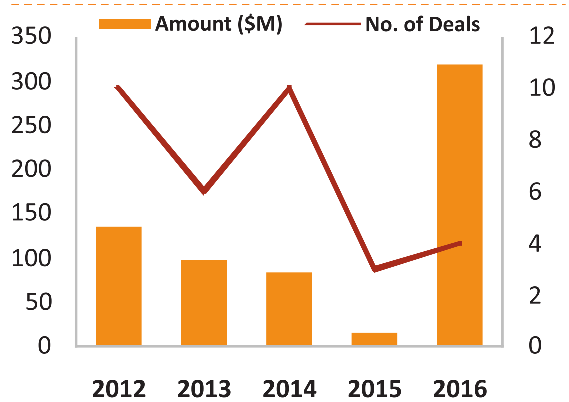
Education



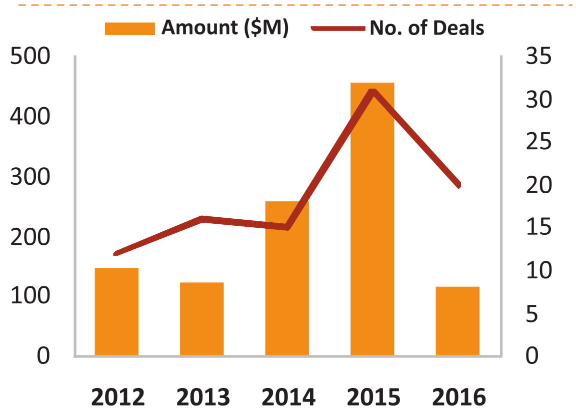
Agri-business



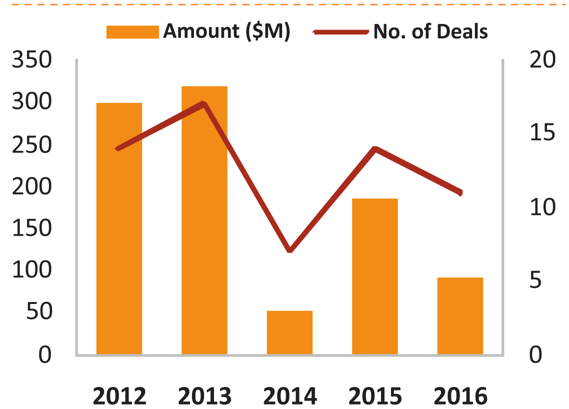
Textile and Garments



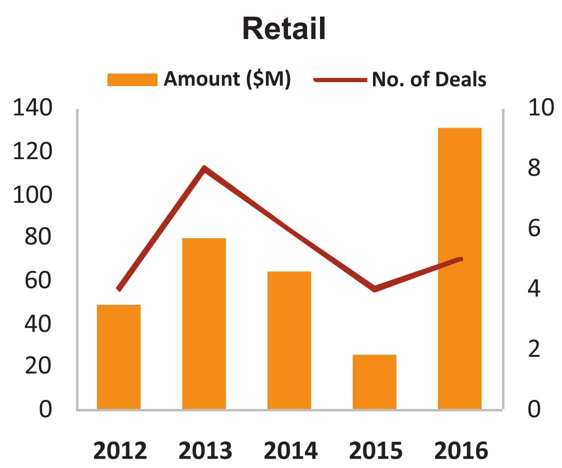
Food & Beverages

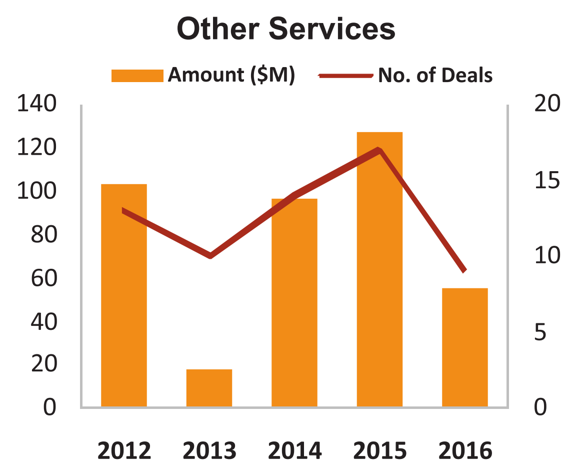


Media & Entertainment



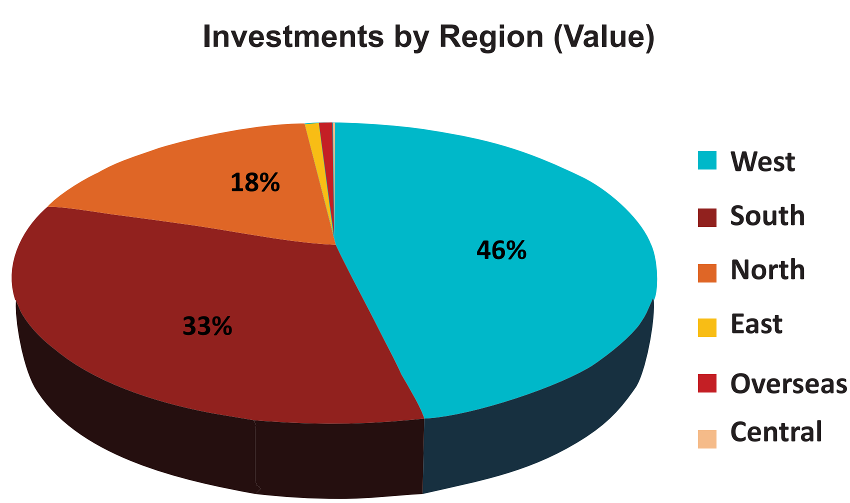
PE Investments in India during 2016: 620 Deals, $15.2 Billion





By Region

Companies based in Western India (which attracted $7 Billion across 194 deals) accounted for almost 46% of the PE investment pie in value terms (31% by volume) during 2016. South India based companies ($5 Billion across 233 investments) followed with a 33% share (38% by volume). Companies in North India attracted investments worth almost $2.7 Billion across 168 deals (27% by value and 18% by volume).

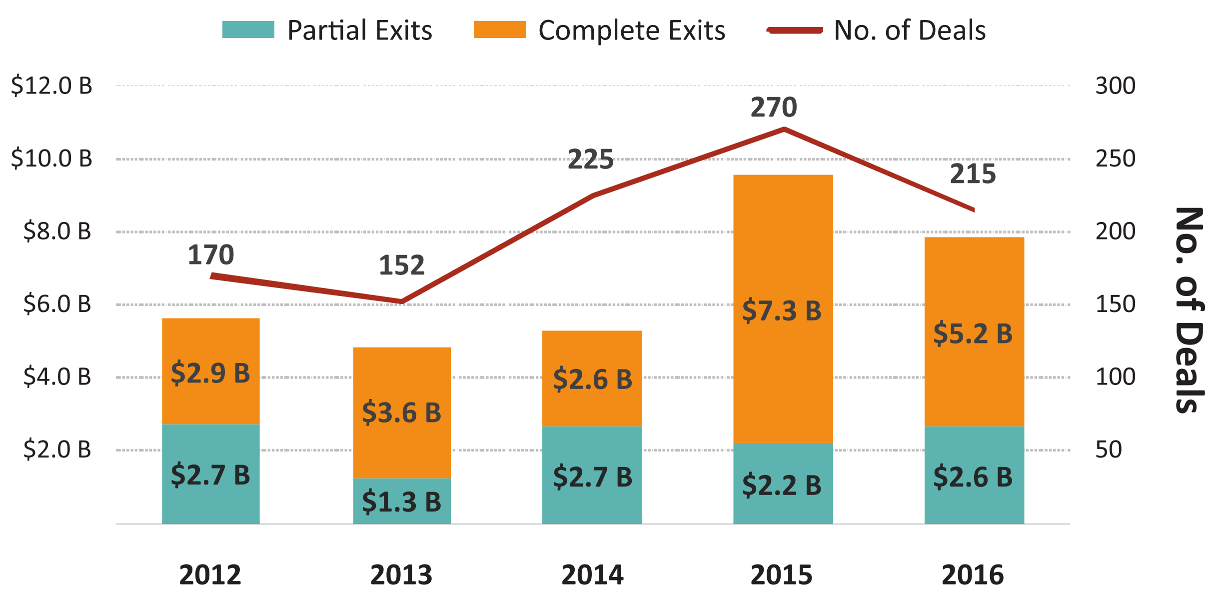


PE Exits in India during 2016: 215 Deals, $7.86 Billion

Private Equity exits in India declined by 18% to $7.86 Billion* (across 215 deals) during the calendar year 2016 compared to an all-time high of $9.55 Billion*(across 270 deals) in 2015. The exit value includes $7.33 Billion of Complete Exits; the remainder being partial ones .These figures, which include VC Exits and exclude PE Exits in Real Estate, take the total realizations by PE firms in the five year period starting January 2012 to about $33 Billion (across 1,032 transactions).

*Note – Value includes stock swap deals.

PE Exits in India



Other Highlights

- 19 exits(9% of the over all) are over $100 million each & account for 58% of total value harvested
- Manufacturing companies top exit chart providing all time high harvest of $2.3 Billion account for 29% by value (12% by volume).
- Exits via Strategic Sales only segment to grow YoY; Account for 44% of 2016 exits (by value)
- Led by $1.05 Billion exit from Alliance Tires, KKR accounts for 4 out of Top 10 exits via M&A
- 16 PE-backed cos pull off IPOs in 2016
- Investors sell off shares worth $217 million in the IPO of microfinance firm Equitas
- 6 exits with over 10x return in 2016 compared to 9 in 2015
- SAIF exit from Justdial (22x) and Aavishkaar from Equitas (13.5x) top charts by profitability. While public markets were receptive to PE-backed IPOs through the year, the last quarter of 2016 witnessed a sharp fall in other types of exits.

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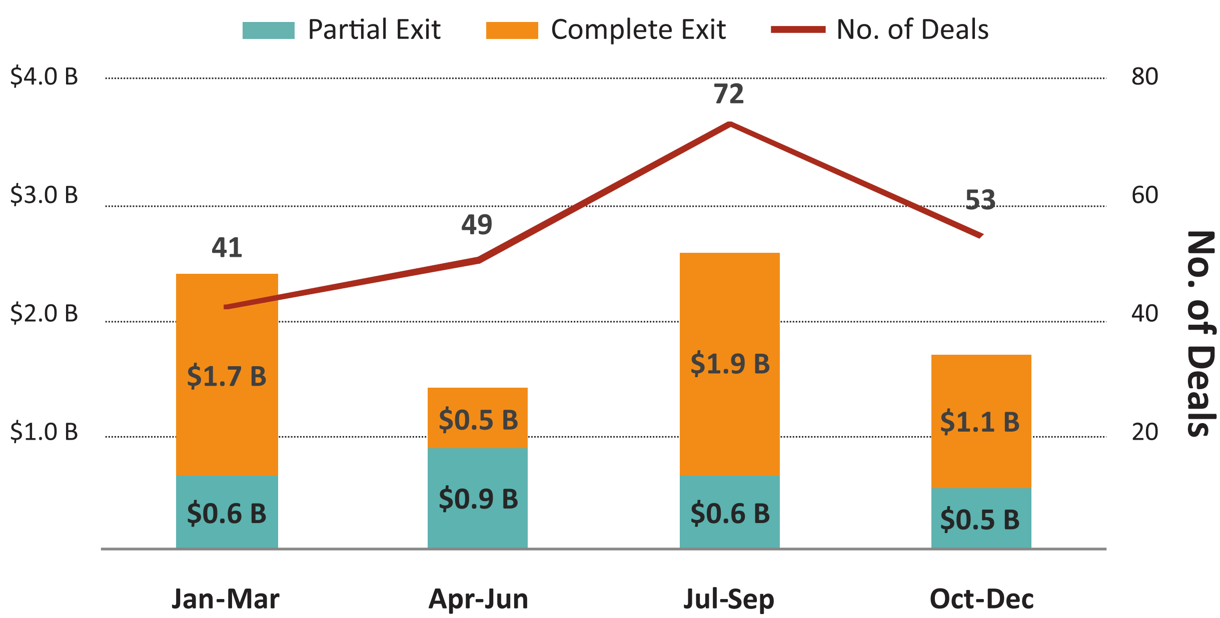
PE Exits in India during 2016: 215 Deals, $7.86 Billion

Exits by Quarter – 2016



The largest PE exit during the year was the sale of KKR's stake worth $1.05 Billion in Alliance Tire Group to Yokohama Rubber Co (which has acquired Alliance Tire Group at an equity value of $1.18 Billion).The deal, which represents the single largest exit via the M&A route in India, enabled KKR to realize an about 2.8x return on its three year old investment.

The next largest exit deal (by value) during the year also belonged to KKR – in the form of its sale of its 38% stake in Gland Pharma for $550 million to Shanghai Fosun Pharmaceutical to register a 2.67x return. The Chinese buyer acquired an approximately 86% stake in Gland for about $1.26 Billion.Including its exits from TVS Logistics Services and Dalmia Cement (Bharat), KKR harvested $1.8 billion in 2016 with an aggregate return of about 2x on its invested capital.

The third largest exit during 2016 was the $420 million sale of the stake held by CX Partners and Capital Square Partners in Minacs BPO to US-based Synnex, fetching the investors a 1.74x return (in INR terms) in less than two years. (CX and Capital Square had acquired Minacs from the Aditya Birla Group in 2014 for $260 million.)

In the largest exit via the public markets, the microfinance focused Equitas Holdings pulled off a highly successful IPO that provided an exit route for its 14 PE/VC investors. 11 investors sold shares worth $217 million as part of the IPO, fetching returns of between 2x and 13.5x.

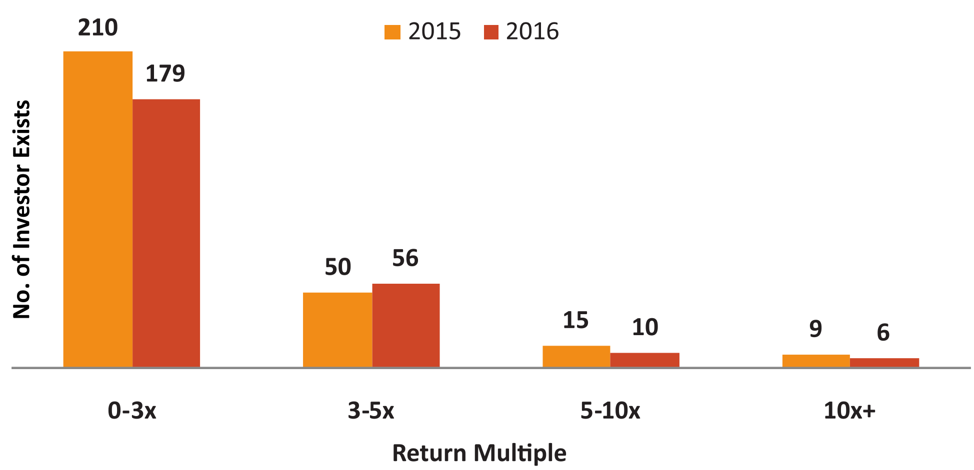
Providence Equity Partners made a part exit from Idea Cellular by selling stake worth $206 million through public market sale and retained 3.33% stake in the target after the sale. The investor made approx. 3x return from this 9 year old investment.

PE Exits in India during 2016: 215 Deals, $7.86 Billion

Exits by Profitability

Overall 2016 fetched PE investors 72 exits with return multiple of more than 3x compared to 74 exits in the previous year. Of these, six exits fetched 10x or higher returns (compared to nine such deals in 2015).

Distribution of Exits by Return Multiple



In March, SAIF Partners India participated in the buyback program initiated by JustDial and sold shares worth INR 14.6 crore, realizing an over 22x return from its nine year old investment. In April, Aavishkaar Goodwell made complete exit from Equitas Holdings by selling shares worth $8.21 million as part of the IPO fetching a return of 13.53x on its investment.

Aarin Capital sold its stake in Byjus Classes to Lightspeed Ventures and made a reported return of 10x on its investment. Lighthouse's stake sale in Dhanuka Agritech through the public market fetched a return of 7.5x on its Aug 2010 investment. In May, Unitus completely exited its investment from Ujjivan Financial Services as part of the successful IPO with a 7.45x return.

In July, SAIF Partners India made another part exit from Manpasand Beverages by selling stake worth $10 million through public market sale and realized 7.40x return on its investment. IFC sold a 1.78% stake in Cholamandalam Investment and Finance Company for $45 million fetching a 7.27x return on its Apr 2010 investment.

Top PE Exits by Profitability

Portfolio Company	PE Firm(s)	Industry	Deal Type	Return Multiple	Exit Date	Holding Period (in years)
JustDial	SAIF	IT & ITES	Buyback	22.08x	Mar-16	9
Equitas Holdings	Aavishkaar Goodwell	BFSI	IPO	13.53x	Apr-16	8
Byjus Classes	Aarin Capital	Education	Secondary Sale	10x	Feb-16	3
Dhanuka Agritech	Lighthouse	Agri business	Public Market Sale	7.5x	Sep-16	6
Ujjivan Financial Services	Unitus	BFSI	IPO	7.45x	May-16	10
Manpasand Beverages	SAIF	Food & Beverages	Public Market Sale	7.4x	Jul-16	5
Cholamandalam Investment	IFC	BFSI	Public Market Sale	7.27x	Oct-16	7
Satin Creditcare	ShoreCap International	BFSI	Public Market Sale	5.85x	Aug-16	6
Ujjivan Financial Services	Lok Capital	BFSI	Public Market Sale	5.23x	Sep-16	8

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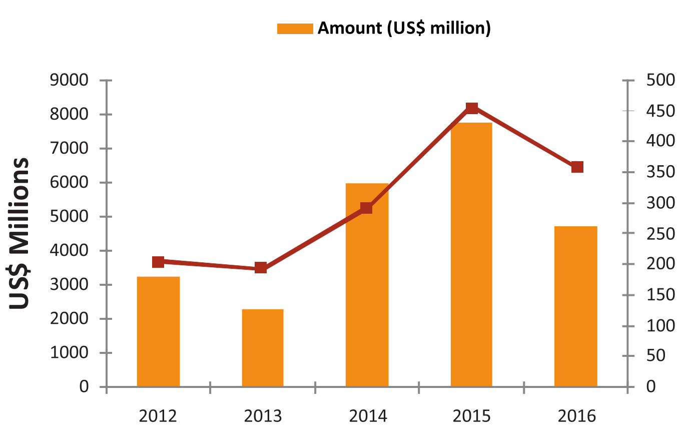
PE Investments in IT & ITeS during 2016: 359 Deals, $4.45 Billion

IT & ITeS companies attracted $4.45 Billion in Private Equity investments (30% of the overall investments) across 359 transactions during 2016 compared to $7.73 Billion across 457 transactions in 2015. Despite the over 42% decline in value terms (21% by volume), IT & ITeS companies still accounted for the highest share of Private Equity investments (by both value and value) in India during 2016.

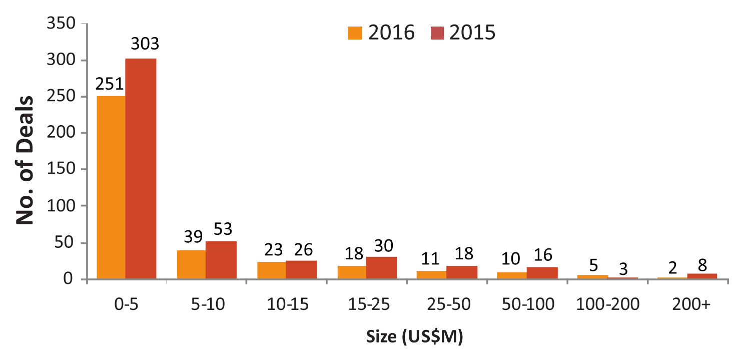
Other data highlights

- IT & ITeS companies accounted for 30% of the total PE investments made in CY16
- Online Services companies (179 deals) attracted 47% of the volume pie

IT & ITeS Investments in India



Distribution of Investments by Deal Size



US-headquartered PE giant Blackstone bought out Hewlett Packard from its majority holding in listed IT Services & BPO firm Mphasis via a deal that would cost it between $825 million to $1.1 Billion (depending on the success of the Open Offer to other public shareholders).

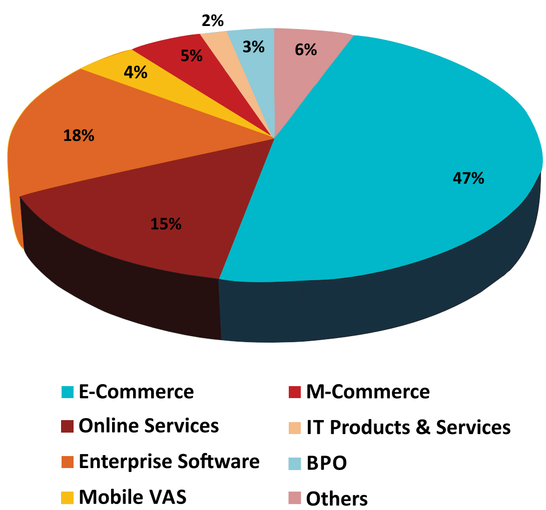
Mobile wallet firm Paytm raised $300 million in a round that saw the participation of Taiwanese semiconductor maker MediaTek and existing investors Alibaba and SAIF, taking the total funding raised by the company to $1.07 Billion. This was followed by a $200 million secondary purchase of shares in E-commerce firm Snapdeal by Ontario Teachers Pension. Messaging app maker Hike raised $175 million from China-based Tencent (which operates the Chinese messenger service WeChat), Taiwan-based contract electronics manufacturer Foxconn Technology Group and existing investor Tiger Global. General Atlantic and Temasek picked up around 28% stake in the online payments processing company Billdesk for $ 171 million.

Top PE Investments in IT &ITeS*

Company	Sector	Amount ($M)	Investors	Date
MphasiS	IT Services, BPO	825	Blackstone	Apr-16
Paytm	Mobile Wallet	300	SAIF, Alibaba, MediaTek	Aug-16
Snapdeal.com	Online Services (E-commerce - Consumer Shopping)	200	Ontario Teachers Pension, Others	Feb-16
Hike	Mobile VAS (Utility - Chat)	175	Tencent, Foxconn, Tiger Global	Aug-16
BillDesk	Online Services (Bill Payments)	171	General Atlantic, Temasek	Mar 16

PE Investments in IT & ITeS during 2016: 359 Deals, $4.45 Billion

Investments by Sector



Online Services companies attracted $1.82 Billion across 170 deals (45% of the investments by volume) followed by Mobile VAS companies at $710 million across 64 deals (that accounted for 18% of the deals) and Enterprise Software companies ($400 million across 54 deals).

PE Investments in IT - By Stage

Stage of Company Development	Volume / No. of Deals		Value / Amount ($M)	
	2016	2015	2016	2015
Venture Capital	304	369	993	1359
Growth PE	30	46	1367	2649
Late Stage	18	35	1079	2674
PIPE	3	3	58	152
Buyout	4	4	950	902

PE Investments in IT - By Region

Region	No. of Investments	Value ($M)
South	140	1854
North	101	1339
West	103	1134
Overseas	11	110
East	3	9
Central	1	1

IT & ITeS companies based in the country's tech capital Bangalore attracted almost $1.72 Billion across 118 deals.

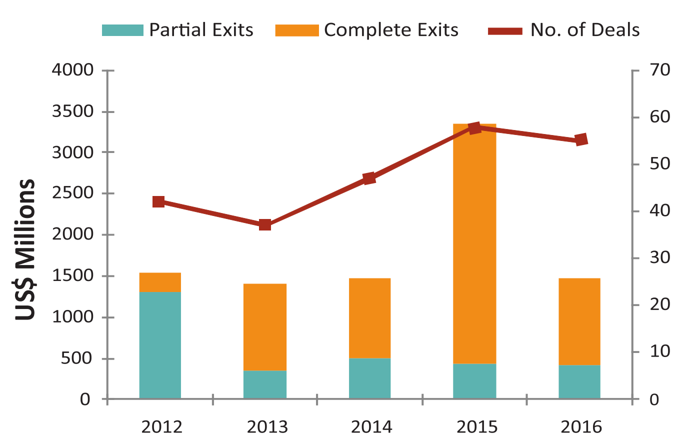
Liquidity Events

IT & ITeS companies delivered exits worth $1.47 Billion to PE investors across 55 deals during 2016 compared to $3.35 Billion across 58 deals in 2015.

Other Data Highlights:

- IT & ITeS exits account for 20% of the total exits in 2016
- 4 exits of over $100 million in value account for 55% of the exit pie
- SAIF Partners India realized 22x returns in a buyback initiated by its publicly listed local search portfolio company JustDial.

PE Exits in IT & ITeS



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PE Investments in IT & ITeS during 2016: 359 Deals, $4.45 Billion

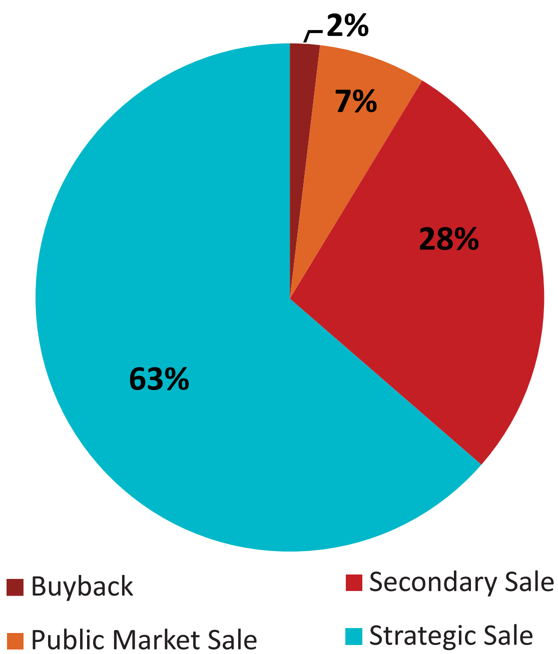
Top PE Exits in IT & ITeS - By Size

Company	PE Firm(s)	Type	Acquirer	Amount ($M)
Minacs BPO	CX Partners, Capital Square Partners	Strategic Sale	Synnex	420
BillDesk	Clearstone, TA Associates	Secondary Sale	General Atlantic, Temasek	171
CommonFloor	Tiger Global, Accel India, Google Capital	Strategic Sale	Quikr	120
Snapdeal.com	Sequoia Capital India, Saama Capital	Secondary Sale	Ontario Teachers Pension Fund	100
Indecomm Global Services	IFC, Tiger Global, Acer Technology Ventures, WestBridge	Secondary Sale	Capital Square Partners	90

The largest IT & ITeS exit during 2016 was the $420 million sale of the stake held by CX Partners and Capital Square Partners in Minacs BPO to US-based Synnex, fetching the investors a 1.74x return (in INR terms) in less than two years. (CX and Capital Square had acquired Minacs from the Aditya Birla Group in 2014.)

General Atlantic and Temasek picked up around 28% stake in BillDesk giving partial exits to prior investors Clearstone and TA Associates. Classifieds portal Quikr acquired real estate listings firm CommonFloor (backed by Accel India, Tiger Global and Google Capital) for an estimated $120 million – less than what CommonFloor was valued at during its last fund raising time. Sequoia Capital India and Saama Capital were given partial exits by Ontario Techers Pension Fund in Snapdeal.com as part of the reported $200 million investment. Capital Square Partners acquisition of 55% stake in Indecomm Global Services provided complete exit to the Companies long term investors WestBridge and Acer Technology Ventures (2003), IFC (2006) and Tiger Global (2010).

SAIF Partners India participated in the buyback program initiated by JustDial and sold shares worth INR 14.6 Crore, realizing an over 22x return from its nine year old investment.



Led by the Minacs BPO acquisition, 2016 was a strong year for strategic acquisitions among IT & ITeS companies. Consolidation in the Internet & Mobile segment boosted the deal volumes led by transactions like Quikr's acquisition of CommonFloor; Flipkart-Myntra's acquisition of fashion e-tailer Jabong, Naspers-PayUMoney's acquisition of online payment gateway provider Citrus Payment; and Titan's acquisition of e-jeweler CaratLane.com.

Led by deals like those in Billdesk and Snapdeal, Secondary Sales (acquisition of the stake held by one PE investor by another) accounted for six exits fetching investors $409 million.

Fintech - Impetus for India's Digital Economy

Improvement in the ease of doing business in India, the fight against black money, the requirement of ensuring adequate monitoring of transactions and finally customer comfort and satisfaction have propelled the Government of India (**"Government"**) to embrace the use of technology and take steps to emphasize the importance of digital transactions. Heavy cash dependence of the Indian economy has meant that despite large budgetary sanctions through many decades of planning and five-year plans, the intended monetary support has not reached the intended beneficiaries. The Finance Minister, in pursuance to the Union Budget 2017 (**"Budget 2017"**), mentioned that three of the biggest measures taken by the Government are (i) its efforts to implement goods and services tax ("GST"), (ii) demonetization, and (iii) achieving direct subsidy transfers through the "JAM" trinity, an abbreviation for Jan Dhan Yojana, Aadhaar and Mobile number. The Government is pinning its hopes on these three modes of identification, the usage of technology and the data collected thereby to deliver direct benefits to India's poor. The Government is also looking at financial inclusion through technology.

Measures promoting usage of the BHIM (Bharat Interface for Money) app using the Unified Payment Interface (**"UPI"**), introductions of Aadhar Pay and other similar payment systems, improving necessary digital payment infrastructure, grievance handling systems and access to high speed broadband and thereby digital systems are few of the key measures announced by the Government in the Budget 2017, to provide a strong push to the digital economy in India. Without a doubt, this is the right time and place for fintech companies doing business in India.

Investments in India's fintech sector have been the second largest in Asia Pacific, after The People's Republic of China (**"China"**). There are over 600 fintech startups in India. Considerable number of these companies has received funding. However, receipt of funding is definitely not equivalent to being successful. Amongst the various issues affecting a fintech company, one of the most important is 'regulations'. The Indian fintech industry is still considered to be at a nascent stage and accordingly, the regulatory regime is yet to completely catch up to the rapidly paced technological developments in the sector.
Payment systems in India are regulated by the Payment and Settlement Systems Act, 2007 along with its allied regulations (**"PSSA Act"**). The Ministry of Finance constituted the Watal Committee in August, 2016 (**"Committee"**) and their report has presented various recommendations on digital payments. Taking these recommendations further, the Budget 2017 has indicated that there will be amendments to the PSSA Act to incorporate relevant suggestions set forth by the Committee. Additionally, the Budget 2017 also provided for amending Section 3 of the PSSA Act to allow constitution of the Payment Regulatory Board in place of the extant PSSA Board. The entities directly providing services qua financial institutions are regulated by relevant RBI regulations. However, there are entities that are running businesses of aggregators or platform providers and are not directly providing financial services, such as P2P lending platforms, and are therefore not presently covered by any regulations. The Government has recognized this and has therefore set up a working group committee headed by Mr. Sudarshan Sen (**"Working Group"**) to recommend regulations for the 'fintech' sector and 'digital banking'. The Working Group is yet to provide their recommendations. The new regulations will not only bring certainty over doing business in the sector, but will also allow proper structure and the development and growth in avenues of business, as may be prevalent in other jurisdictions (for eg. securitization of receivables/portfolio by P2P companies).

Pending the regulations to specifically address the relevant fintech businesses, the digital sector and fintech companies need to be aware of and mitigate some important legal issues at hand. One of the important tenets to do business in the fintech sector is to have paper-less transactions, thereby encouraging 'click wrap' or 'shrink wrap' contracts. However it is important to be aware of the issues surrounding the enforceability of such electronic contracts. These are not contracts which have been signed using digital signatures; which have a clear process under laws for verification. With the amendment to the Information Technology Act, 2000 (**"IT Act"**) and the Indian Evidence Act, 1872, a clear recognition has been provided to electronic documents and admissibility of the same as evidence in Courts. There are several judgments of the Indian Courts that have provided recognition to 'click-wrap' agreements or other online contracts. However, under Indian law, all contracts need to be duly stamped (as they are within the definition of an 'instrument') to be duly admissible in a Court. The issue of

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whether such electronic contracts need to be stamped has not yet been duly addressed by the Courts of India. There are some views that an electronic document is not signed and accordingly not executed and therefore not does not require to be stamped. While a majority of State-specific stamp duty laws also do not specifically include electronic records within their ambit, some State stamp duty laws, like the Maharashtra Stamp Act, 1958 (**"MSA"**), specifically refer to electronic records in the definition of the term "instrument". The definition of the term "execution" under the MSA also takes into account attribution of electronic records. From the foregoing, there is possibility of an interpretation that specified instruments, if covered under the MSA, would attract payment of stamp duty upon their execution, even if the execution takes place electronically. However, such a requirement may be viewed as anti-commerce. It would be important to have clarity on whether it would be required for an electronic contract to be stamped (whether along with penalty or otherwise) before having the same admitted as evidence. This would completely change the business models for the entities in this sector.

The increase of digitisation is leading to an increased access to data and increased requirement to allow secured transfer of data. Accordingly, development of the laws surrounding confidentiality, data privacy and cyber security are the need of the hour. The laws around data privacy and data protection are considerably nascent in India. Apart from certain amendment to the IT Act, the Government has passed the Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011 (**"Rules"**). The Rules are a first step. Stringent implementation of the law and healthy development of the data privacy and protection jurisprudence in the long run is what one needs to watch out for.

Having dealt with the status of regulations and certain legal issues, it is important to also highlight that the Government is continuously taking steps and changing systems to ease digital space by way of inter alia benefits to online transactions or impetus to participants of online transactions, introduction of concepts such as E-KYC, Aadhar based payments etc.

In addition to the existing avenues, India has started to look into the use of the blockchain technology for financial sector. The research arm of RBI recently used blockchain to test the technology behind Bitcoin. In addition, banks like Yes Bank have used blockchain to digitize vendor financing arrangements. Increase and variation in technology is merely adding value to the financial products space. Gone are the days of disruption caused by fintech sector. The financial institutions, Government and the legislative arm have realized that it is the new norm and have therefore begun to invest, participate and collaborate.

Authors:
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Deep Roy – Associate Partner

ECONOMIC LAWS PRACTICE
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Darshan Upadhyay is a Partner in the Corporate & Commercial and Private Equity & Venture Capital practices of ELP. He is a qualified Company Secretary and a law graduate from the University of Mumbai.

With over 14 years in Private Equity and M&A transactions, Darshan has advised several Fortune 500 companies in the world and continues to advise funds and multinationals on aspects like entry, acquisitions, joint ventures and other commercial transactions for their India-related forays. His expertise in exchange control regulations, SEBI and general corporate law is an added advantage on M&A transactions. Several private equity funds and hedge funds consult him on various matters of importance. He has been involved in some of the most complex M&A transactions including takeover matters involving structuring, regulatory approvals, open offer compliances and other transactional support.

RSG India Report 2015

"Excellent commercial understanding," "quality of advice" and "specialist knowledge."

Some of Darshan's recent transactions include advising Johnson Controls in relation to its global air conditioning business joint venture with Hitachi Appliances, Inc (Japan) and Hitachi Limited (Japan). The joint venture is said to be world's largest commercial air conditioning provider. This deal has been recognised one of the Deals of the Year by Inhouse Community's Asian Mena Counsel in its Deals of the Year 2015 award. He was involved in advising New Vernon Private Equity Limited and Hilson Estates Limited in the sale of their entire shareholding held in Carwel Estates Limited and Faery Estates Limited respectively to Canada Pension Plan Investment Board (CPPIB) and Shapoorji Pallonji Group's joint venture company SPREP Pte. Ltd. for the acquisition of SP Infocity IT Park in Chennai.
This deal has been recognised as the Real Estate Deal of the Year by India Business Law Journal in the Deal of the Year Awards 2015. He also advised Jet Airways as co-counsel on the acquisition of twenty four percent (24%) stake by Etihad Airways in Jet Airways India Limited. This deal was awarded the M&A and Joint Venture Deal of the Year Award by India Business Law Journal in its Deal of the Year Awards 2013. It has also been awarded as the Deal of the Year in Inhouse Community's ASIAN-MENA COUNSEL Deal of the Year 2013 Awards.

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Corporate & Commercial
Private Equity & Venture Capital

Asialaw Profiles 2014

Upadhyay "understands business needs and [tries] to find practical solutions," says a client.

Darshan has been ranked as a Leading Lawyer for Corporate/M&A by Asialaw Profiles 2014 & 2015; Highly Recommended for his expertise by The Legal500 Asia-Pacific 2016; and a Leading Lawyer in IFLR1000 Financial & Corporate 2017.

Prior to joining ELP, Darshan was a Partner with ARA Law heading the Private Equity and Mergers & Acquisitions group. He has worked extensively in the Telecom, Media and Technology space with Thacker & Thacker from 2000 to 2005.

ECONOMIC LAWS PRACTICE
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Deep's experience includes trade finance, structured finance, acquisition finance, asset finance project finance, restructuring (whether on stressed assets or otherwise), asset reconstruction and other syndicated lending transactions. Such debt transactions include cross border structures including matters dealing with external commercial borrowing regulations, overseas direct investment regulations and their respective security and contractual comforts. He has also been assisting clients with legal advice on their product structuring (including retail products) and providing standard documents in relation to the same. He has gained experience on advising clients in the fintech sector and collaborating with banks and financial institutions in this space. In addition to the banking practice, he has also been providing regulatory advice to clients on exchange control regulations in India and on other regulations issued by the Reserve Bank of India ("RBI").

RSG India Report 2015

Considered to be one of the best in the business of client service through his

IFLR1000 Financial & Corporate 2017

"excellent professional and great advisor to clients"

Deep has over 9 years of experience in rendering corporate and transactional advisory services. He regularly advises banks, corporates (whether as borrowers or investors, including private equity participants) and non-banking financial companies with regard to the India legal aspects of debt transactions and RBI regulatory issues.

Prior to ELP, Deep was part of the corporate legal team at ICICI Bank Limited. He was initially part of the structured finance team and subsequently part of strategic investment team at ICICI corporate legal department.

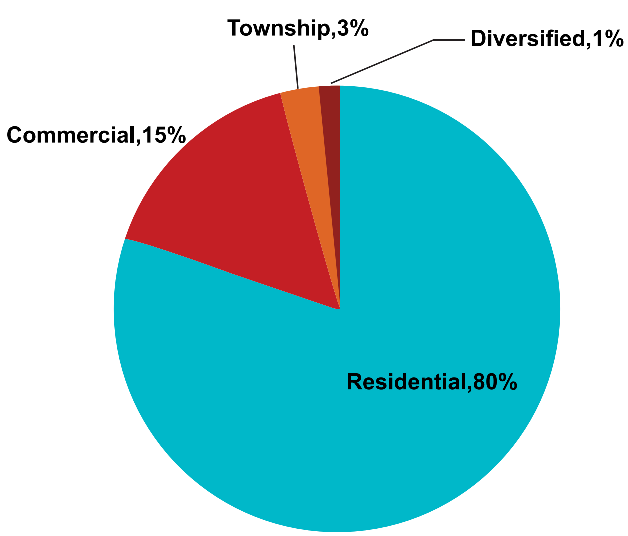
Deep Roy has been recommended as an Up and Coming lawyer by Chambers Asia-Pacific 2016 & 2017.

Real Estate Investments in India during 2016: 71 Deals, $4.9 Billion

Private Equity-Real Estate firms disclosed 71 investments in India during 2016. Of these, 63 transactions had an announced value of $4,889 million. While the transaction value remained flat compared to the $4,918 million invested in the previous year, the activity level was down 21% compared to the 90 investments in the previous year.

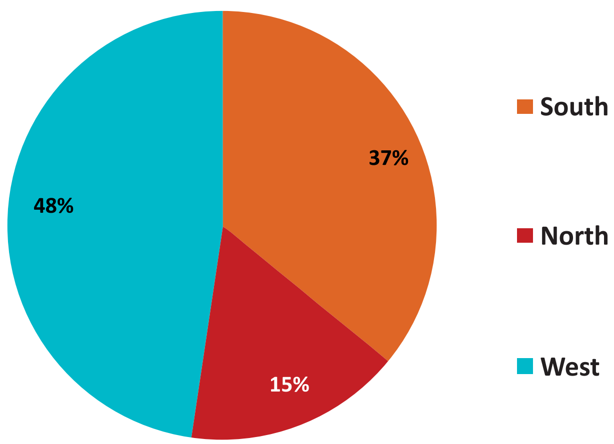
The commercial segment bolstered the value of PE-RE investments in 2016 by attracting an all time high investments worth $1,923 million (across seven announced deals) in 2016, an almost two fold increase from the $979 million (across eight announced deals) invested in 2015. The deal volume in the commercial segment was up 22% to 11 deals compared to the nine deals in 2015.

PE- RE Investments by Type (Volume)



The predominant focus of PE-RE investors continued to be in the Western Region (34 deals), dominated by Mumbai, which attracted 27 investments. Pune based projects received seven investments. Projects in South accounted for 26 deals. Among these, Bangalore saw 20 investments followed by Hyderabad (five deals) and Chennai (one deal). North India based projects, received 11 investments, predominantly in the NCR region.

By Region



The year witnessed several Joint Venture (JV) platforms being created between large investors and established developers. Macquarie Infrastructure and Real Assets and realty firm Tata Housing Development Co. Ltd are setting up a joint investment platform to invest about $300 million or INR 2,000 crore in residential projects. Out of the total committment, Macquarie's contribution is $210 million or INR 1,400 crore while Tata housing will bring in the remaining amount. Apollo Asia Fund entered into a joint venture with Salarpuria Sattva Group to acquire 100% stake from a group of offshore investors in two real estate projects at Bengaluru and Vadodra. The deal is valued at $42 million or INR 275 crore. Bengaluru-based commercial real estate developer RMZ announced it is in the process of forming a second joint venture with the Qatar Investment Authority, to buy development assets across top cities in India.

VENTURE INTELLIGENCE

Real Estate Investments in India during 2016: 71 Deals, $4.9 Billion

Top PE-RE Investments by Size			
Company	**Type**	**Investor(s)**	**Amount ($M)**
Hiranandani Group	Commercial	Brookfield	1000
Virtuous Retail South Asia	Commercial	Xander, APG	450
Lodha Group	Residential	Piramal Fund	347
Godrej Properties	Residential	APG	275
Tata Housing	Residential	Macquarie	210

Among the bigger transactions in 2016 was Brookfield's buyout of office and retail space of Mumbai-based real estate developer Hiranandani Group for $1 Billion or INR 6,700 crore. The deal is the single biggest investment so far in the Indian Real Estate sector. PE Firm Xander and Dutch pension fund asset manager APG Group partnered to form a joint venture viz. Virtuous Retail South Asia to invest $450 million or INR 3000 crore in retail assets in India. Xander group will own 23% and APG Group will own 77% in the JV. Piramal Fund invested $347 million or INR 2,320 crore across a bouquet of several projects of the Lodha Group in Mumbai.

Altico Capital was the most active PE-RE investor during the year announcing 13 new investments in 2016, followed by Piramal Fund (12 deals). Edelweiss Capital, KKR and MotilalOswal PE reported seven deals each. Blackstone reported three deals.

Liquidity Events

PE-RE firms announced 24 exits during 2016. Of these, 22 transactions had an announced value of $1 Billion, up 13% compared to $905 million (across 16 transactions) announced in 2015. The exit volume level was down 7.7% compared to the 26 exits in the previous year.

14 of the exits were through buybacks followed by Secondary Sales (i.e., sale of stake to another PE investor) which accounted for five exits, and Strategic Sales (sale to another developer) that accounted for three exits. Public Market exits (sale of stake in listed companies) accounted for one exit.

Among buybacks, HDFC Property Fund made an exit worth over $225 million or INR 1,500 crore from Lodha Group's high end residential project, World Tower, in Mumbai. Lodha Group funded the buyback, which provides HDFC a three times return on its 2010 investment, through a combination of internal accruals and fresh fund raising.

Gurgaon based Real Estate company BPTP agreed to pay over $105 million or INR 693 crore to buyout the 5.67% stake held by Citi Property Advisors (for $50.5 million) and 6.21% stake held by JP Morgan (for $54.5 million). The PE investors made a 1.3x return on their investment. Apollo Global Management sold its entire stake in Ahuja Towers, a super luxury residential project of Ahuja Constructions located in Mumbai, for $69 million or INR 460 crore. The exit provided the investors with returns of around 2.3x on its $40 million or INR 200 crore investment in 2007.

Among secondary transactions, Kotak Realty exited Mumbai-based developer Nirmal Lifestyle in which Altico Capital invested $75.25 million or INR 500 crore. Urban infrastructure Venture Capital received full exit from Ozone Group's Urbana Project that was funded by structured debt raise from Piramal Fund. Urban Infrastructure had invested $43 million or INR 200 crore in the Urbana project in 2009.

Among strategic sale transactions, Blackstone fully exited BPTP Crest in a deal which saw BPTP selling the IT Park in Gurgaon to Bengaluru-based real-estate company RMZ Corp for $150 million or INR 1,020 crore . Blackstone owns about 11%, which translates to a realization of $16.5 million or INR 112 crore.

MILESTONE PRIVATE EQUITY

Trends in Real Estate Investing

The Year gone by

The year 2016 has been a highly eventful year for real estate as various policies with far reaching implications such as RERA, GST and the much debated demonetization were introduced. These measures will bring a fundamental change in how business is conducted in this sector and will yield immense benefits in the long term especially for the institutional players.

The demonetization move by the government has led to a high level of uncertainty in the real estate sector. To meet the challenges and requirements of the new RERA, developers will need to maintain high degree of corporate governance and customer satisfaction. This shall lead to consolidation in the industry and developers having a solid execution record will be much sort after by consumers and investors. These developers shall also be the ones having institutional backing enabling them to recover faster from the current slump in business.

In the last year, the residential segment has seen reduction in new launches across geographies as developers have focused on completion and delivery of projects on hand. In the immediate aftermath of demonetization, a drop in residential sales across cities has also been witnessed and this has accentuated the subdued demand scenario.

Rubi Arya
Executive Vice Chairperson
Milestone Capita Advisors Limited

Private Equity Trends

Affordable housing	Increasing private equity participation on account of government thrust on 'Housing for all' initiative with various incentives for the developer
Structured equity	Decreasing interest rate regime will necessitate PE players to adopt quasi equity structures to achieve target returns
Warehousing	Infrastructure push and introduction of GST to boost organized warehousing and institutional participation through specialized funds
Inbound investments	Increasing transparency, easing of FDI norms and strong macroeconomic tailwinds to garner higher interest from global players
Commercial Office space	Grade-A commercial properties with BFSI, e-commerce and manufacturing tenants to generate attractive yields

On the commercial office space segment, we are seeing an upward trajectory after a fairly long period of consolidation. Office markets across top 6 cities (Mumbai, Pune, Bengaluru, Chennai, Hyderabad and NCR region) of India have performed exceedingly well in 2016 despite major uncertainties due to Brexit, US elections and slowdown in IT/ITES spending by Europe and USA. This year saw 40.6 Mn sq ft of transactions, that is slightly higher than last year. Though demand for office spaces was much higher in 2016, the same could not be converted into fresh leases due to shortage of good quality spaces in prime locations leading to many occupiers delaying or curtailing their demand.

MILESTONE PRIVATE EQUITY

Trends in Real Estate Investing

Additionally, there was a dip in the new supply that entered these top six cities during 2016. Vacancy levels, which had peaked in 2012 has seen huge improvement and is the lowest in recent history at 13% with Bengaluru and Pune at 6% and 8% respectively. With inadequate supply of Grade - A commercial spaces, in the last few years, the demand – supply mismatch is likely to rise. Hence, rentals are likely to increase steadily, leading to attractive capital gains in the next 4 - 5 years. I strongly believe that investment in commercial real estate will generate good returns in light of bottomed out capital values and increasing rentals. With BFSI, e-commerce, manufacturing leading the economic growth, Mumbai, is one of the exciting markets to watch out for and I expect strong demand and capital appreciation in Mumbai especially for Grade-A commercial assets. Given the low returns on traditional yield products, I strongly believe that commercial real estate investments is a compelling investment choice especially in light of increased absorption and favourable outlook for Grade A properties.

From a macro perspective, India saw over USD 5.6 Billion being invested through PERE in 2016 of which approx. USD 3.4 Billion was invested into residential and the rest into commercial assets. This action has been dominated by platform level deals and large ticket size commercial transactions. Exits by private equity funds reach approximately USD 1,022 million dollars and we ourselves achieved about USD 95 million of exit across our residential and commercial funds.

Budget Highlights

Affordable housing	Budget measures provide a significant boost to this segment and we shall see increasing number of developers undertaking such projects
Joint Development Agreements	Deferment of capital gains tax till project completion to result in more supply of land and consequently more opportunities for private equity investors
Refinance by NHB	To put a downward pressure on interest rates
Norms on thinly capitalized companies	This change, though not completely clear currently, may impact a highly efficient repatriation strategy for investments made in highly leveraged sectors such as real estate.

The Year In Progress

As always in a tough market environment, one has to dig deeper to find the real diamonds. We expect that institutions and private equity funds will have to go beyond the plain vanilla to spot the market outperformers in terms of the segment, location and investment structures.

Affordable Housing: Hitherto, affordable housing has suffered from lack of focus from developers because of economic non-viability. Over the past couple of years, we have witnessed greater focus on affordable housing by all stakeholders, especially from the government in line with its commitment to 'Housing for All'. The recent budget announcement provided additional benefits to this sector ensure housing for all by giving affordable housing an industry status. This will help developers in accessing lower cost funds, achieving better margins on account of 80 IB tax benefits and creating supply for the first time home buyer. The qualifying size of affordable houses being amended from built up area to carpet area is a significant move in expanding the bracket of homes under affordable housing such that even a 2BHK house in non-metros gets included in this category. This widens the affordable housing opportunities for home buyers and developers. Even prior to the budget, private equity funds had started eyeing opportunities in affordable housing and we also had many enquiries from overseas investors for this space. With the budget announcements, this sector looks even more attractive, and I feel we can expect private equity funds and foreign investors to increase their stake in this sector. Developers with the requisite execution expertise and ability to quickly churn projects will be partners of choice for such funds to enter into affordable housing.

MILESTONE PRIVATE EQUITY

Trends in Real Estate Investing

Structured Equity: Deal structuring in the recent past has mainly centered on mezzanine & structured debt to developers. Going forward, given the falling interest rate regime, high yield debt products will cease to excite developers. We have had a good experience in debt products for residential assets as we introduced such structures six years back and over the period have returned over 20% IRR p.a. across these investments. In my opinion, PE players will have to revisit the drawing board to change the nature of their participation in real estate and will need to take quasi equity positions or pure equity positions to achieve targeted returns. Such transactions, however, shall primarily, be with developers with a strong track record of execution and timely repayment to investors.

Logistics and Warehousing play: In addition, we are seeing higher interest from global institutional players for alternate real estate asset classes such as industrial estates, industrial parks and warehousing. With impetus being provided through initiatives such as Make in India, Ease of Doing Responsible Business, GST, etc these asset classes could provide steady yields. An increased allocation to infrastructure at Rs. 3.96 lakhs crore and to national highways at Rs. 64,000 crores in the budget also augurs well for the manufacturing sector and allied sectors which automatically translate to higher demand for logistics and warehousing. Going forward, we expect greater institutional participation in logistics especially warehousing development. We will see more funds with specialist fund managers to focus and manage these investments. Entry pricing in industrial real estate is competitive presently and hence should provide good medium to long term returns.

Foreign Participation: With the recent easing of increasing foreign direct investments rules and best practices being adopted, the real estate sector has been maturing and is expected to attract more foreign capital. Further the proposed abolishment of Foreign Investment Promotion Board in 2017-18 in this union budget, increases the prospects of raising foreign funds. This makes the sector more transparent and attractive for investment through FDI route which in turn will help in raising larger capital at cheaper cost of funding providing an impetus to investing in real estate. PE funds are looking to leverage on this rising interest amongst foreign investors.

On the flipside, provisions introduced in section 94B for thinly capitalized companies could impact the use of debt for foreign investments in Indian companies. Debt has always been a more tax efficient method of finance than equity as dividend income is not tax deductible. Thinly capitalized companies (where debt is higher than equity) have used this to re-characterize debt into equity and avail tax benefits. The budget proposes to bring in provisions which will limit this interest deduction that can be claimed by Indian companies for payments made to their associated enterprise situated overseas. This was an efficient repatriation strategy and this change will impact investments made in highly leveraged sectors such as real estate and infrastructure. In relation to foreign funds investing by way of compulsorily convertible debentures or non-convertible debentures, I feel it is not clear if this section 94B will be triggered on account of such funds being classified as an associated enterprise. In my opinion, a clarification is required to exempt foreign funds from this provision.

The years to come

Today, we are in the midst of sweeping changes which shall impact the industry for the long term. Though it is foolhardy to predict anything, what I definitely foresee is a cleaner, more stable, more institutionalized sector over the next few years. For private equity funds, key will be to be more hands-on in respect of their knowledge of micro markets, project development, and statutory approvals and processes and operations management. A fund manager with full cycle expertise shall carve a niche for itself.

Real Estate Investment Trusts

Real Estate Investment Trusts ("REIT"), are investment vehicles that enables investors to invest in Real Estate (defined below) by purchasing beneficial interests of REIT ("Unit").

The advantage of having REIT structure is that the REIT may also operate the Real Estate as a part of its own portfolio in addition to acquiring, developing and selling the Real Estate.

REIT as investment vehicles are popular in 20 plus countries. Legislation regulating REIT have been enacted as early as 1962 in the United States of America.

REIT structure

REIT is usually set up by a sponsor. The sponsor as author creates a trust to be managed by the trustee. The trustee of the REIT is responsible for the management of all of the properties of the REIT. In order to effectively manage the REIT, the trustee appoints the manager by entering into an investment management agreement and delegates certain powers to enable the manager to make investment in accordance with the objective of the REIT.

Advantages of REIT structure

The following are the advantages of having a REIT structure:

- REIT structure is advantageous to both investors and the sponsor. It provides the investor with an opportunity of investment that is not as risky as investing in under-construction properties and also provides the investor with a regular source of income. It provides the sponsor an opportunity to exit and thus providing liquidity to the sponsor;
- REIT structure are a popular investment option for long term pool of capital such as pension funds and insurance companies;
- REIT structure provides liquidity to the investors,since REITs arelisted; and
- REIT structure provides for transparency and accountability in the real estate sector.

REIT Regulations

The Securities and Exchange Board of India ("SEBI") has notified Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 ("REIT Regulations") that governs the registration, and regulation of REIT in India.

The REIT Regulations defines "Real Estate" as land and any permanently attached improvements to such land including buildings, sheds, garages, fences, fittings, fixtures, warehouses, car parks, etc. and any other assets incidental to the ownership of real estate but does not include mortgage.

The REIT Regulations specify that the REIT may either directly hold the Real Estate or hold it indirectly by holding a controlling interest in a holding company or special purpose vehicle. The holding company is not permitted to engage in any other activity other than holding controlling interest in the SPV.

The special purpose vehicle under the REIT Regulations is mandated to hold 80% of its assets in Real Estate and must not engage in any activity other than holding and development of Real Estate.

Registration with SEBI is mandatory for the purpose of operating a REIT. In terms of Regulation 7 (c) of the REIT Regulations, the REIT, its sponsor, trustee, and manager shall at all times satisfy the eligibility criteria as specified under Regulation 4 of the REIT Regulations.

Real Estate Investment Trusts

Eligibility Criteria

For the trust

- The instrument of the trust must be registered under the provisions of the Registration Act, 1908;
- The main objective of the trust must be to undertake the activity of a real estate investment trust in accordance with the REIT Regulations;
- Sponsor, manager and the trustee must be separate persons;
- The trust deed must include the responsibilities of the trustee as provided in Regulation 9 of the REIT Regulations; and
- The voting rights of the Unit holders of the REIT must be equal interse and cannot be superior to voting rights of any other Unit holders.

For the sponsor

- The sponsor must hold at least five percent of the Units;
- The sponsor or the sponsor group must have a collective net worth of one hundred crores and an individual net worth of twenty crores each as the case may be;
- The sponsor must have an experience of at least five years in the development of real estate or fund management in the real estate industry; and
- If the sponsor is a developer, at least two projects of such sponsor must have been completed

For the trustee

Regulation 2(1)(zi) of the REIT Regulations. Infrastructure other than hotels, hospitals and convention centers, and common infrastructure for composite real estate projects, industrial parks and SEZ are excluded from the purview of Real Estate definition. Infrastructure has the meaning given to it in the Notification of Ministry of Finance dated October 07, 2013.

- The trustee must be registered with the SEBI under the SEBI(Debenture Trustees) Regulations, 1993 and is not an associate of the sponsor(s) or manager; and
- The trustee must have the wherewithal with respect to infrastructure, personnel etc., as specified by the SEBI.

For the trustee

- The net worth (if individual) or net tangible assets value (if body corporate) of the manager must be at least ten crores;
- The manager or its associate has at least five years' experience in fund management or advisory services or property management in the real estate industry or in the development of real estate;
- The manager must have at least two key personnel having the experience mentioned to in point 2 above;
- If the manager is a company, at least half of the directors must be independent and must not be in the board of any other REIT, if the manager is an LLP, at least half of the members of the governing board must be independent and must not be in the governing board of any other REIT; and
- The manager must enter into an investment management agreement with the trustee and such agreement must contain the obligations of the manager as specified in Regulation 10 of the REIT Regulations.

Investment and distribution

REIT is allowed to invest only in properties, securities, special purpose vehicles, or transferable development rights.A REIT must invest in at least 2 projects, directly or through the special purpose vehicle or through its holding company, with not more than 60% of value of assets invested in one project.

At least 80% of the value of the assets of the REIT needs to be in completed and revenue generating properties. However, REIT is prohibited to invest in another REIT or to lend.

REIT must distribute not less than 90% of the net distributable cash flows to its investors and100% of cash flows received from the Special Purpose Vehicles ("SPV") even if there is a re-investment opportunity. The distribution shall be made once in 6 months.

Real Estate Investment Trusts

Rights and Responsibilities

REIT Regulations provides for rights and responsibilities for the trustee, manager, sponsor (or sponsor group), valuer and auditor.

The responsibility of the trustees includes holding the assets of the REIT for the benefit of the Unit holders and ensuring the manager complies with the REIT Regulations. The trustees are also responsible to provide any information about the REIT to SEBI and stock exchange when sought for.

The manager's responsibility includes (i) ensuring that the assets bought by the REIT or the holding company or the SPV have a good marketable title, (ii) management of the REIT assets in accordance with the REIT Regulations, and (iii) appointment of valuer and auditor in accordance with the REIT Regulations.

Similarly, the sponsor, valuer and auditor are given specific responsibilities under the REIT Regulations.

Any party violating the rights and responsibilities under these provisions is liable to be prosecuted in accordance with Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

REIT Regulations also provides for certain rights to the Unit holders with regard to receiving income and distributions from the REIT. It also prescribes the mechanism for obtaining the approval of Unit holders with regard to management of REIT.

Listing of Units

REITs are allowed to raise funds by public issue through an initial offer subject to the following conditions:

- The value of the assets owned by the REIT is at least 500 Crores;
- There are at least 200 minimum number of Unit holders forming the part of public (other than sponsor, sponsor's related party and sponsor's associates), however, if the unit holders fall below 200 subsequently, it would not result in delisting;
- The offer size cannot be less than 250 crores;

Further issue of Units by REIT may be by way of follow-on offer, preferential allotment, qualified institutional placement, rights issue, bonus issue, offer for sale or any other mechanism and in the manner as may be specified by the SEBI.The Units may be offered either to (i) a resident or (ii) a registered foreign portfolio investor or (ii) a non-resident Indian (holding an overseas citizen of India card).

However, the minimum subscription amount for the applicant both under initial offer and follow on public offer shall not be less than Rs 2 Lakh with a trading lot of Rs. 1 lakh each.

Valuation

Regulation 22 of the REIT Regulations.

RBI brought amendments to FEMA (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 and issued a circular to allow foreign investment in units issued by REITs through automatic approval route. [A.P. (DIR Series) Circular No. 63 https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT377D62BA8DB105543EA8CB5B2F26D805C24.PDF].

The REIT Regulations mandates valuation of all the REIT assets by a valuer on a yearly basis and the valuation needs to be updatedon a half yearly basis

Taxation

Units of the REIT

Trading of Units on a Recognized Stock Exchange ("RSE") is subject to levy of Securities Transaction Tax ("STT") under the Income Tax Act, 1961 ("IT Act").

REIT and Unit holders

Section 115UAof the IT Actparticularly prescribes for taxation of the REIT and Unit holders in accordance with other provisions of the IT Act.

The income to the REIT includes(i) rental income form the Real Estate, (ii) dividends and interests, from the SPV.

The receipt of rental income from the Real Estate, dividend income from SPV and interest income from SPV to REIT are all exempt from taxation in the hands of REIT. However, any other income to REIT is taxable at maximum marginal rate.

The long term capital gains tax is exempt for the income received by a Unit holder for sale of Units of REITAny income other than (i) rental income from assets and (ii) interest received from SPV, by REIT distributed to the Unit holder, is taxable at the hands of the Unit holder.

Sponsor

The sponsor has the option of transferring his shares in the SPV to the REIT in lieu of Units in the REIT. Sponsors tax liability for the receipt of Units is deferred by virtue of Section 47(17) of the IT Act.So once the sponsor sells the Units,the sponsor is liable for short term capital gains tax at the rate of 15% or long term capital gains tax at the rate of 20% as the case may be.

The cost of acquisition of shares of the SPV is considered to be the same as the cost at the time of sale for the purpose of calculation of short term capital gains tax and long term capital gains tax. The time period of holding for the purpose of the type of tax (long term or short term) is calculated from the date of transfer of shares of the SPV.

Registered under Section 247 of the Companies Act, 2013 – Regulation 2(1)(zz) of the REIT Regulations. Section 115UA of the IT Act. – Tax on income of unit holder and business trust. Section 10(23FCA) of the IT Act. Section 10(34) of the IT Act - any income by way of dividends referred to in section 115-O (is exempt). Section 10(23FC) of the IT Act. Section 10 (38) of the IT Act. Section 10(23FD) of the IT Act.

In the event, the sponsor sells the shares in the SPV through an initial public offering to the REIT, the sponsor will be levied STT, but the sponsor can take the benefit of concessional tax regime and the long term capital gains would be exempt at the sponsor's hands

Stamp Duty

REIT has no stamp duty exemptions. Stamp duty must be paid on transfer of properties by an SPV to the REIT and such transfer or acquisition of property by REITS.

In the event of conveyance of a property under the Karnataka Stamp Act, 1957, a stamp duty of 7½% on the market value of the property needs to be paid.

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Real Estate Investment Trusts

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Dilip practices in the areas of corporate and commercial laws. He has experience in investments (both domestic and international), mergers and acquisitions (onshore and offshore), corporate restructuring, employment laws, private equity, project finance and related negotiations and documentation. He has substantial experience in the areas of private equity, retail, hospitality, infrastructure, real estate (including townships and SEZ), financial services, information technology, funds, education and health care, having handled several transactions in these sectors.

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