

## Exclusive: ArthVeda hits first close of ASHA fund

ArthVeda Fund Management Pvt Ltd, an associate company of mortgage lender Dewan Housing Finance Ltd, has hit the first close of its ASHA fund for low-cost housing projects and is now planning to float a new scheme, a top company executive told VCCircle.

The company had last year announced its [plan](#) to raise Rs 2,000 crore for low-cost housing projects through a series of schemes under the ASHA fund. The first scheme was launched in January this year with a target corpus of Rs 150 crore.



Ashish Bhalla, senior vice president and business head at ArthVeda, said the firm has scooped up Rs 25 crore in the past three months to mark the first close of the fund. "We have had many discussions with domestic limited partners which should fructify in the next quarter, by when we aim to wrap up fundraising for the current scheme," he said.

The scheme has tapped into domestic investors, mostly family offices, to raise the corpus. Bhalla said due diligence is a big challenge to raise money for low-cost housing. "Given that the space has not been explored by mainstream firms, there is not enough public information available to indicate performance of such projects in Tier II and Tier III cities. So, investors take much longer on due diligence before they commit capital," he said.

Another challenge is the large number of deals. "Because the investment amount is low, we end up sealing multiple deals. This takes a lot of bandwidth and monitoring, making it a complicated space to be in as compared to regular deal activity in top markets," he said.

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However, he said, the advantage is that land prices are not inflated and there are not many funds vying for the same deal. "From investors' perspective this is an untouched market, giving us the opportunity to seal a deal at a discount," he added.

The fund has started exploring investment opportunities across 25 cities including Tier II and Tier III markets and faraway suburbs of metro cities. It would typically come in at the land acquisition stage as an equity partner and commit capital in the range of \$2-3 million per project.

It seeks to back projects with a maximum of 300-400 units of 500-750 sq ft spread across roughly half a million sq ft. "We will stay invested for a maximum tenure of two-and-a-half to three years and then exit as the project progresses through promoter buyback or refinancing," Bhalla said. He added that the fund is aiming for an internal rate of return of 30 per cent on its investments.

## **New fund**

While it is evaluating deals for investment for the first scheme, the firm has also set its eyes on a second pool of capital. It will officially launch the new scheme in the July-September quarter with a slightly bigger target corpus of Rs 200-300 crore.

"Given that now NRIs can also invest in domestic schemes, we are having discussions with offshore investors as well and will rope them in for our new fund," Bhalla said.

The second scheme will follow the same strategy of backing low-cost housing projects across Tier II and Tier III markets.

Bhalla said that there is a lot of flexibility when it comes to investment in real estate now and that recent regulatory moves related to foreign direct investment and alternate investment funds have made things easier for fund managers as multiple vehicles are not required.

ArthVeda has aligned its fundraising activity with the Narendra Modi government's scheme to provide housing to all, which is likely to give a boost to affordable housing. Indeed, over the past two years, a lot of developers have come out with projects catering to the lower strata of the society or floated separate low-cost ventures. Developers including Supertech and ATS in northern India, and Paranjape Schemes, Omkar Realtors and Shapoorji Pallonji & Company Ltd in the west have ventured into the affordable housing segment.

While developers have warmed up to the segment, mainstream capital seems to have stayed away. Barring funds from International Finance Corporation (IFC), the private-sector arm of the World Bank, and some impact investment firms, funding activity in the segment is limited. In one big development last year, Shapoorji Pallonji [formed](#) a joint venture with Standard Chartered Private Equity, IFC, and the Asian Development Bank to develop affordable housing projects in India.

Capital flow across major markets, however, has been on an upswing with 2015 attracting \$2.8 billion in real estate, according to VCCEdge, the data-research platform of VCCircle.