

CENTFIN:2022:43

DATE: 18.01.2022

Present Proposal:-

To approve recording of our vote in the E-voting process for the monetization programme as a part of the on-going Group Resolution in IL & FS in terms of NCLT order dated 01.10.2018:

Resolution Proposed

“RESOLVED that the bid price/ consideration of INR 1080,00,00,000 offered by Project Holding Seven (DIFC) Limited (which is an affiliate of Brookfield Private Capital (DIFC) Limited) for the proposed acquisition of all rights, title and interest of Infrastructure Leasing & Financial Services Limited (“IL&FS”) in the land admeasuring 12,651.95 square meters or thereabouts situated at Plot No. C – 22, in the “G” Block of Bandra Kurla Complex, Mumbai Suburban District together with the building structure standing thereon known as “The IL&FS Financial Centre” (along with certain assets located therein, as specified in the draft Letter of Intent, but excluding commercial/office space admeasuring 21,644 square feet FSI built-up area in Quadrants “C” and “D” on the 5th Floor of the said building) which shall be paid in the manner stipulated in the agreed form of the Letter of Intent (a copy of each of which has been shared with the members of the Committee of Creditors of IL&FS) be approved by the Committee of Creditors of IL&FS, in accordance with the provisions of the Third Progress Report dated December 17, 2018, the Addendum to the Third Progress Report dated January 15, 2019 and the Second Addendum to the Third Progress Report dated December 5, 2019.”

DETAILS OF RESOLUTION PLAN:-

As a part of the ongoing resolution process, the New Management of IL&FS has initiated voting for the resolution for the proposed acquisition of, on an ‘as is where is’ basis and ‘as is what is’ basis, all piece and parcel of land known as Plot No. C – 22, in the “G” Block of Bandra Kurla Complex within the C.T.S No. 4207 of Village Kolekalyan, Taluka Andheri, Mumbai Suburban District containing by admeasurement 12,651.95 square meters or thereabouts together with the building structure standing thereon known as “The IL&FS Financial Centre” (“TIFC”) (along with certain assets located therein), excluding an area of commercial/office space admeasuring 21,644 square feet FSI built-up area on a part of the 5th Floor of the said building, namely Quadrants “C” and “D” together with proportionate leasehold interest in the said land which was assigned/transferred and /or agreed to be assigned/transferred by IL&FS to HDFC Standard Life Insurance Company Limited vide Agreement for Sale dated 30th March 2001, under the monetization programme as a part of the ongoing Group Resolution in IL&FS in terms of NCLT order dated 01.10.2018.

Details of Bids:-

The representative of the Resolution Advisor informed that public bidding process was launched in October 2020 through an advertisement in 2 leading newspaper publications and in addition to the advertisement, the IPC (Financial Transaction Advisor) also reached out to 149 investors including key global and domestic investors, namely, 42 institutional investors, 41 developers, 33 Banks/NBFC/Corporates and 33 HNIs/family offices. Expressions of Interest (“EOI(s)”) were received from 16 applicants and out of which 14 applicants qualified for Request for Proposal (“RFP”)/Bid stage. Further, VDR access was granted to the 14 qualified/eligible applicants as potential bidders and 11 potential bidders conducted site visit.

First bid was received from Project Holdings Seven (DIFC) Limited (an entity belonging to the group of Brookfield Asset Management Inc.) (“H1 Bidder”) on 24th September 2021 for Rs. 846 Crores. Representative of the Resolution Advisor informed that the said bid along with the valuation reports were presented to the Asset Sale Committee of IL&FS (“ASC”). The ASC rejected the bid on 19th October 2021 and asked the IPC (Financial Transaction Advisor) to negotiate with the Bidder for an upward revision of bid.

Representative of the Resolution Advisor informed that 2nd Bid i.e revised bid was received from the H1 Bidder on 29th October 2021 for Rs. 950.00 Crores. The revised bid was not accepted by the board of directors of IL&FS (“Board”).

Representative of the Resolution Advisor informed that H1 Bidder submitted a 3rd Bid i.e revised bid on 26th November 2021 for Rs. 1050 Crores. On 9th December 2021, the Board provided the H1 Bidder with two options, namely, agreeing for subjecting the 3rd bid to a Swiss Challenge Process or submission of a further revised bid/offer. Representative of the Resolution Advisor informed that H1 Bidder rejected the option of a Swiss Challenge Process on 10th December 2021 and submitted a further revised bid/offer (i.e., the 4th Bid) of Rs. 1080 Crores, which was recommended by the ASC to the Board and by the Board to be placed before the COC.

Representative of the Resolution Advisor informed that through these negotiations, the overall bid amount of the H1 Bidder was increased by approximately 28% from the first/original bid amount.

Valuation made by 2 independent Valuers:-

(₹ in crore)

| Valuer Name | Market value | | | Liquidation Value | | |
|-------------|--------------|-------|---------|-------------------|-------|---------|
| | RBSA | Jadon | Average | RBSA | Jadon | Average |
| Valuation | 1,077 | 1,449 | 1,263 | 861 | 1,013 | 938 |

The representatives of IPC informed that the final Bid/offer received from the H1 Bidder (i.e. in Round 4) is above the average liquidation value and 86% of the average market value.

The representatives of IPC explained the business rationale for considering the final Bid submitted by the H1 Bidder. It was highlighted that at a bid value of INR 1,080 Crore, the price per square feet is over Rs. 29,000/sqft which is higher than the average price received for two comparable large-scale transaction (i.e., Godrej BKC and Crecenzo) post Covid 19, of Rs. 25,000/sqft. Further, the final Bid from the H1 Bidder has been received after four rounds of intense negotiations at the highest levels of IL&FS which has resulted in a 28% increase from the initial Bid/offer of Rs 846 Crore, and it is higher than fair market value of Rs. 1,077 Crore as ascertained by one of the valuers, i.e., RBSA.

Sale Instances in BKC-Post Covid - Comparables

| Month | Asset | Seller | Purchaser | Area (sqft) | Price | Price/sqft |
|--------|------------|----------|--------------|-------------|-------|------------|
| Jul-20 | Godrej BKC | HDFC/Jet | Brookfield | 1,70,000 | 490 | 29,000 |
| Dec-20 | Creccenzo | SCB | Gurmeet Bawa | 60,000 | 131 | 22,000 |

Details on H1 bidder:- Brookfield Asset Management Inc.

The representatives of IPC gave a brief background about the H1 Bidder as under:-.

Brookfield is a leading global alternative asset manager with over \$625 billion of assets under management across real estate, infrastructure, renewable power, private equity and credit. In terms of India presence, Brookfield has a listed REIT with a Gross Asset Value (GAV) of Rs 104 Bn. They have also partnered with key Real Estate players such as Hiranandani, Unitech, Essar, RMZ.

Few recent deals include-

- Acquisition of 12.5 MSF of real estate portfolio and co-working business for \$2 billion (Rs. 14,680 Crores) from RMZ Corp.
- Acquisition of 0.17 MSF of office space in Godrej BKC for Rs. 490 Crores.

Brookfield is an active investor in India commercial real estate with \$7 B AUM in the country. The bidding entity is called “Project Holding Seven (DIFC) Ltd” which is an affiliate of Brookfield Private Capital (DIFC) Ltd. As one of the world's largest investors in real estate, they own and operate iconic properties in some of world's most dynamic markets Their global portfolio includes office, retail, multifamily, logistics, hospitality, triple net lease, manufactured housing and student housing assets on five continents.

Brookfield’s AUM in Real Estate is \$237 Bn with investments in over 500 million SF of commercial spaces. With respect to office asset class they own, develop and manage office properties in key gateway cities in the U.S., Canada, the U.K., Germany, Australia, Brazil, India and South Korea with a total of about 318 properties with about 167 million SF.

Key Concerns of Bidders:-

The representatives of the IPC informed some of the key concerns raised by the potential bidders.

- a. Market conditions:- The current market conditions are affected by Covid 19 pandemic which has led to a drop in absorption rate. The BKC market has witnessed a 60% drop in absorption with decrease in rentals. The potential bidders were apprehensive about leasing timeline as well as the rentals that they could achieve given the current market scenario post Covid 19.
- b. Asset quality:- The TIFC asset requires immediate refurbishment to make the asset comparable with market standard. There are various issues, such as, leakages and water seepages. The asset was originally designed for self-consumption purpose, due to which the building design is not suitable for multiple tenants, thus, increasing leasing challenges. The top three floors have been designed in a way to ideally be suitable for a single tenant. All of this may involve high opex re modelling cost. The Floor-to-floor height is inadequate till the 6th floor (3.4-meter vs 3.9 meter which is market norm). The estimated capex for aforesaid costs is estimated to be approx. Rs. 100 Crore.
- c. Process related concerns:- Some of the investors were hesitant to participate in the bid process as the resolution would take a period of 12 months or more. It would be an opportunity cost loss to them if their capital is blocked for 12 month or more.
- d. Occupancy level:- The external tenant occupancy is approximately 35% to 40% of the leasable area. With average 10% decrease in rentals and demands for rent free period, the potential bidders envisaged challenges in leasing out vacant space. Further, IL&FS was also expected to vacate the TIFC premises once the asset is acquired.