AAE 202407

Unveiling Opportunity: Panther Capital Ventures' Journey to Financial Plaza Acquisition

 Version: 2024-04-28

In the bustling streets of Mumbai, within the heart of Panther Capital Ventures, a memorable incident unfolded two summers ago. It was a regular evening when Rohan and his friend Priya planned to attend a concert. Little did they know, destiny had a different plan in store. Amidst the hustle and bustle of the city, Rohan swiftly rescued Priya from a near bike accident. Since then, they often joked about being each other's guardian angels.

Recently, Priya approached Rohan with an exciting proposal. She shared news about Financial Plaza, a significant office building in Meadowbrook, up for sale at a tempting price. It appeared to be a golden opportunity for Panther Capital Ventures to explore.

Excitement and caution filled Rohan's mind. He knew that beneath such attractive prospects lay hidden risks. To truly understand the situation, thorough research was essential. Turning to Aarav, a diligent intern, Rohan tasked him with diving into the details of the deal.

Their quest led to a series of probing questions. What were the dynamics in the Mumbai area? Who were the key tenants of Financial Plaza? Could Panther Capital Ventures turn this opportunity into profitable returns?

Moreover, the economic landscape was uncertain, making securing a loan a daunting task. The road ahead was challenging, but Rohan and Aarav were determined to navigate it together.

Their journey began with a deep dive into the Mumbai rea estate market. Aarav scanned through data, analyzing trends and economic indicators. He uncovered valuable insights into the area's growth prospects and the demand for commercial real estate.

Meanwhile, Rohan examined the tenant composition of Financial Plaza. He scrutinized lease agreements, assessed tenant stability, and evaluated the potential for future vacancies. Understanding the dynamics of the tenant mix was crucial for forecasting the property's long-term performance.

As they pieced together the puzzle, Rohan and Aarav faced the pressing question of financial viability. In an environment marked by tight credit conditions, securing financing posed a formidable challenge. Rohan reached out to financial institutions, presenting a compelling case for investment in Financial Plaza.

Their efforts culminated in a comprehensive analysis, presenting a holistic view of the opportunity at hand. Armed with data-driven insights and a clear understanding of the risks involved, Rohan and Aarav stood ready to make an informed decision.

In the realm of commercial investments, uncertainty often loomed large. Yet, it was precisely in such challenging times that opportunities for growth and prosperity emerged. With determination and diligence as their guiding lights, Rohan and Aarav embarked on a journey toward unlocking the potential of Financial Plaza, confident in their ability to weather the storm and emerge victorious.

The property

The opportunity Rohan had just mentioned on the phone seemed tailor-made for Panther capital. Financial plaza, a 90,000-square-foot office property situated in the Mumbai suburb of Thane, caught their attention. The building boasted a 90 percent occupancy rate and was up for grabs at an unbelievable price of ₹1.144 crore. Considering the challenging commercial market conditions prevailing, such promising deals were rare to come by.

Panther Capital Ventures, Pvt. Ltd

Located in Thane, Maharashtra, Panther Capital Ventures, Pvt. Ltd., stood as a privately held real estate enterprise fueled by entrepreneurial zeal. Established in 2005 by Rohan Shah and his close associate, Aarav Patel, the company delved into the dynamic world of real estate investments. Their goal? To meet the growing demand for diverse real estate investment options, pooling funds from affluent individuals and deploying them strategically across various real estate ventures.

In its formative years, Panther Capital Ventures specialized in mezzanine financing, offering vital support to residential development projects. With a sharp eye for emerging opportunities, the company carved a niche for itself by providing debt financing to prominent projects in Mumbai's bustling Thane district. However, as the turn of 2009 approached, Panther Capital Ventures sensed a shift in market dynamics.

The team recognized that the most promising path to growth lay in direct property acquisitions. Consequently, Panther Capital Ventures began divesting from its existing mezzanine financing portfolio, seizing favourable market conditions to secure profitable exits. Meanwhile, the traditional real estate mezzanine finance sector experienced a downturn, with many lenders facing significant losses. Unlike their counterparts who succumbed to the allure of perpetual rental and price increases, Panther Capital Ventures remained cautious in their approach.

Empowered by their robust financial standing, Panther Capital Ventures set their sights on acquisitions. Among the opportunities that beckoned, Financial Plaza emerged as a prime contender for their inaugural acquisition venture. With the stage set for their maiden venture into property ownership, Panther Capital Ventures embarked on a journey fueled by ambition and strategic foresight.

Deal Structure and Financing Strategy

Understanding the financial challenges of the times, Aarav delved into crafting a sturdy deal structure for Panther Capital Ventures' acquisition of Financial Plaza. Acknowledging the hurdles in accessing traditional bank financing, Aarav explored alternative avenues to secure the required capital.

With banks cautious amid the credit market freeze, Aarav turned to Commercial Bridge Finance, a reputable Mumbai-based mortgage broker specializing in non-bank lending solutions. Leveraging its extensive market insights and relationships, the broker proposed a non-recourse loan from a life insurance company, offering a favourable 67 percent loan-to-value (LTV) ratio at a competitive rate of 6.85 percent. The loan, with a five-year maturity and a twenty-five-year amortization schedule, required monthly payments and carried a 3.25 percent penalty on prepaid balances if settled before maturity—a common feature in the tight credit environment.

Recognizing Panther's preference to minimize its cash investment, Aarav devised a financing structure aligning with industry norms. He anticipated that 96 percent of the required equity would be sourced from external investors, with Panther contributing the remaining 4 percent. Any additional cash needs during the holding period would be shared on a pari passu basis, mirroring the initial investment ratio of 96/4.

To incentivize investors and ensure favourable returns, Aarav proposed an 8 percent preferred return for limited partners, accruing forward until the property's eventual sale. Panther itself would not receive a preferred return on its investment. Beyond the preferred return, any excess cash flows would be distributed with Panther retaining 25 percent and limited partners receiving 75 percent—a structure aimed at balancing risk and reward in the challenging economic climate.

Upon the property's sale, proceeds would be distributed in a similar fashion. Limited partners would first recoup their invested capital, including any accrued preferred returns, followed by Panther reclaiming its initial investment. Subsequent cash distributions would be split, with limited partners receiving 75 percent and Panther retaining the remaining 25 percent.

Additionally, Panther would levy a 1.75 percent annual fee, deducted from operating cash flows and compensating the firm for its property management services. This fee, while essential for operational support, would not factor into the calculation of Panther's investment returns.

With a meticulously crafted financing strategy in place, Panther Capital Ventures was poised to navigate the complexities of property acquisition, leveraging innovative solutions to seize opportunities amidst challenging market conditions.

Financial Modelling and Risk Assessment

Given the task of creating a detailed financial model for Panther Capital Ventures' potential acquisition of Financial Plaza, Aarav embarked on a thorough journey of data collection and analysis. Understanding the necessity for a robust six-year cash flow projection, Aarav delved into the intricacies of the property's income sources and expenditure patterns.

To match Panther's usual holding period of three to five years, Aarav selected a six-year timeframe for his projections. This allowed for a forecast of net operating income (NOI) in Year 6, crucial for estimating a projected sale price if the property were held for the full five years.

Aarav faced the challenge of making realistic assumptions about the property's cash flows, including future rent and expenses. Aware of the risks associated with spreadsheet manipulations, he carefully evaluated each assumption, ensuring the integrity of the results.

Aarav's strategy involved constructing a benchmark scenario based on his expectations, enabling him to assess the sensitivity of his results to changes in assumptions and adverse scenarios. Tenant stability emerged as a key consideration, given the economic downturn's impact on property owners. However, an analysis of Financial Plaza's tenant mix revealed a stable and diversified portfolio, instilling confidence in the property's resilience.

Reviewing each existing lease, Aarav noted that no leases would expire in the next two years, reducing the risk of significant vacancy. Assuming lease renewals, he projected all existing leases to renew at a 2 percent increase above the previous year's base rent, with annual rent escalation clauses maintained. Additionally, he anticipated leasing one vacant space in Year 1, with the remaining spaces leased in subsequent years.

Estimating rental rates for new leases, Aarav considered recent market trends, setting a conservative rate of ₹150 per square foot per year. He engaged leasing brokers, factoring in a 2 percent commission fee on the first year's gross rent for each new tenant.

Allocating 3.75 percent of realized rental income for credit losses, Aarav forecasted operating expenses at 63 percent of realized rental revenue, assuming a fixed rate independent of occupancy levels and growing at 2.8 percent annually. Major capital improvements were excluded from the benchmark scenario, given Panther's short holding period.

Planning for Panther's exit, Aarav estimated the property's sales price by applying an 8.4 percent exit cap rate to forecasted NOI. Despite limited market data, he projected a conservative sale price of approximately ₹20,000 per square foot in three years, aligning with Panther's investment objectives.

With a meticulously crafted financial model in hand, Panther Capital Ventures was prepared to navigate the intricacies of property acquisition, armed with insights to mitigate risks and optimize returns in the challenging economic landscape.

Property Acquisition Analysis

Panther Capital Ventures came across an enticing opportunity to acquire Financial Plaza for ₹1.144 crore, presenting a substantial discount. This price represented a 28 percent decrease from the current owner's purchase price and was more than 13 percent below the outstanding debt.

Aarav Patel, entrusted with assessing the investment potential of Financial Plaza within Panther's real estate acquisitions portfolio, wasted no time in getting to work. He began by crafting a cash flow projection for Financial Plaza, assuming a three-year holding period with plans to sell the property afterward, utilizing his benchmark assumptions (Exhibit 1).

Once the analysis was complete, Aarav shifted his attention to understanding how mortgage financing terms and partnership agreement terms interacted to determine expected returns for Panther and its limited partner investors. He devised a template for modelling before-tax cash flows for each investor group (see Exhibit 2) and embarked on the next phase of his analysis.

Acknowledging the inherent uncertainty in future outcomes, Aarav meticulously reviewed and tested the underlying assumptions used in his benchmark analysis. He recognized that deviations from expectations were common and aimed to identify which assumptions were most influential in determining the ultimate return for Panther and its investors.

For example, based on Aarav's analysis, assuming a mortgage financing term of 65 percent loan-to-value (LTV) at a rate of 6.75 percent with a five-year maturity, Panther and its investors could anticipate a certain level of cash flow and returns over the projected holding period.

As Aarav delved deeper into his analysis, he remained mindful of the potential impact of varying market conditions and operational factors on the investment's performance. Through thorough examination and scenario testing, Aarav aimed to equip Panther with a comprehensive understanding of the risks and opportunities associated with the Financial Plaza acquisition.

With a rigorous analytical framework in place, Panther Capital Ventures was ready to make well-informed decisions regarding this strategic investment opportunity, ensuring alignment with its investment objectives and maximizing returns for its stakeholders.

Exhibit 1: cash flow projection for Financial Plaza (Benchmark Assumptions)

		2023	2024	2025	2026	2027
	Year 0		1	2	3	4
Potential Gross Income			₹ 18,53,915.20	₹ 18,90,571.70	₹ 19,28,034.64	₹ 19,66,321.77
Vacancy			₹ 1,25,140.40	₹ 62,570.20	₹ -	₹ -
Credit loss			₹ 64,829.05	₹ 68,550.06	₹ 72,301.30	₹ 73,737.07
Effective Gross Income			₹ 16,63,945.74	₹ 17,59,451.44	₹ 18,55,733.34	₹ 18,92,584.70
Expense reimbursements			₹ 3,65,755.87	₹ 3,80,653.53	₹ 3,95,551.20	₹ 3,95,551.20
Total operating revenue			₹ 20,29,701.61	₹ 21,40,104.97	₹ 22,51,284.54	₹ 22,88,135.90
Operating expenses			₹ 10,89,128.12	₹ 11,19,079.14	₹ 11,49,853.82	₹ 11,81,474.80
Net Operating Income			₹ 9,40,573.49	₹ 10,21,025.83	₹ 11,01,430.72	₹ 11,06,661.10
Capital expenditures			₹ -	₹ -	₹ -	₹ -
Leasing commissions			₹ 1,251.40	₹ 1,251.40	₹ 1,251.40	₹ -
Management fee			₹ 63,423.36	₹ 63,423.36	₹ 63,423.36	₹ -
Reversion sale price			₹ -	₹ -	₹ 1,30,19,542.38	₹ -
Property before tax cash flow from operations			₹ 8,75,898.72	₹ 9,56,351.07	₹ 10,36,755.96	₹ -
Property before tax cash flow	₹	-1,14,40,000.00	₹ 8,75,898.72	₹ 9,56,351.07	₹ 1,40,56,298.33	₹ -
Debt service during operational period			₹ 6,41,303.87	₹ 6,41,303.87	₹ 6,41,303.87	₹ -
Debt repayment upon sale			₹ -	₹ -	₹ 72,78,797.30	₹ -
Prepayment penalty			₹ -	₹ -	₹ 2,36,560.91	₹ -
Total payments to lender	₹	-76,64,800.00	₹ 6,41,303.87	₹ 6,41,303.87	₹ 81,56,662.08	₹ -
Equity before tax cash flow from operations	₹	-37,75,200.00	₹ 2,34,594.86	₹ 3,15,047.20	₹ 3,95,452.09	₹ -
Equity before tax cash flow from sale			₹ -	₹ -	₹ 55,04,184.16	₹ -
Total equity before tax cash flow	₹	-37,75,200.00	₹ 2,34,594.86	₹ 3,15,047.20	₹ 58,99,636.25	₹ -

Exhibit 2: Equity Waterfall Model for Financial Plaza

	2023	2024	2025	2026	2027
	Year 0	1	2	3	4
Entity Level Operational EBTCF:					
Entity Level Reversion EBTCF					
Entity Level EBTCF:					
Investor Equity Capital Account:					
Beginning Equity Investment Balance					
Annual Preferred Investment					
Preferred Return Earned					
Preferred Return Paid					
Accrued But Unpaid Preferred Return					
Ending Equity Investment Balance					
Panther Equity Capital Account:					
Beginning Equity Investment Balance					
Annual Subordinated Investment					
Subordinated Return Earned					
Subordinated Return Paid					
Accrued But Unpaid Subordinated Return					
Ending Equity Investment Balance					
Operational cash flow					
Investor Level Cash Flows:					
Panther Cash Flows (excluding management fee):					
Reversion Allocations:					
Investor Return of Equity (with preference)					
Panther Return of Equity					
memo: Investor operational cash flow					
Investor Additional proceeds needed to guarantee target IRR					
Investor Additional proceeds actually delivered to meet guarantee					
Investor Additional proceeds					
Panther Additional proceeds					
(Modeling required Investor cash flow to get to target IRR)					
Reversion cash flow					
Investor Level Cash Flows:					
Panther Level Cash Flows:					
Total EBTCF:					
Investor Level Cash Flows:					
Panther Level Cash Flows:					

Exhibit 3: Occupancy Status of Financial Plaza

Tenant	Sq. Feet	Base Rent	Annual Rental Adjustment	Remaining lease maturity (years)	Lease Type	Reimbursed Expenses (SQ FT)
Simran Mehta	10,955	₹ 2,65,656.33	2%	7	Modified Gross	2
Himalaya Bank & Trust Co.	48,708	₹ 8,10,988.20	2%	3	NNN	5
Himalayan Institute of CFAs	11,275	₹ 2,36,211.25	2%	6	NNN	5
Gupta & Sons	3,128	₹ 72,891.72	2%	7	Modified Gross	2
FinanceX Dealer Services	7,415	₹ 1,80,928.44	2%	5	Modified Gross	2
Advika Consulting	3,973	₹ 99,528.66	2%	8	Modified Gross	2
Suite 102 (currently vacant)	2,980	₹ 62,570.20	0%	NA	NNN	5
Suite 107 (currently vacant)	2,980	₹ 62,570.20	0%	NA	NNN	5
Suite 205 (currently vacant)	2,980	₹ 62,570.20	0%	NA	NNN	5

Exhibit 4: Office submarkets of Mumbai

Market	Number of Buildings	Total Rentable Building Area (sq. feet)	Vacancy (%)	YTD Net Absorption (sq. feet)	Quoted Lease Rates (per sq. foot per year)
Central Loop	104	4,22,29,795	13.1	-6,53,538	₹ 2,078.10
Central North	702	3,30,53,460	13.8	-6,26,885	₹ 1,364.85
Central Northwest	357	76,97,348	15.5	-78,626	₹ 1,462.84
Chembur/Kurla area	99	11,94,674	11.2	-22,149	₹ 1,218.47
East Loop	84	2,77,29,351	16.3	-13,00,203	₹ 2,350.74
Eastern East/West corrid	834	3,30,79,259	17.4	-4,28,717	₹ 1,301.71
Far North	216	45,33,498	11.7	-73,701	₹ 1,186.70
Far Northwest	795	96,56,432	20.8	-1,38,397	₹ 1,151.41
Far South	183	32,00,489	13.7	4,267	₹ 1,010.56
Golden Triangle/South M	28	5,66,082	10.1	-7,554	₹ 1,494.86
Goa	573	75,33,197	11.1	4,401	₹ 998.24
Joliet/Central Will	591	87,59,302	16.7	2,87,561	₹ 1,407.17
Mira-Bhayandar area	9	51,540	6.5	3,425	₹ 1,711.63
Malad-Goregaon area	77	10,36,219	17.5	2,034	₹ 1,046.47
Bandra	171	32,32,657	8.8	-39,890	₹ 1,464.94
Andheri	90	22,57,568	18.3	-41,028	₹ 956.72
Lower Parel	414	1,42,83,588	9.7	-1,51,522	₹ 1,494.54
Mumbai South	291	33,92,824	11.6	-10,970	₹ 1,299.27
Navi Mumbai	257	77,02,324	22	-3,77,563	₹ 1,469.52
Nariman Point	103	1,53,99,929	11.1	-2,61,687	₹ 2,325.39
North Mumbai	847	1,49,67,070	8.9	-41,017	₹ 1,000.85
Powai	140	19,44,237	9.5	9,037	₹ 1,483.13
Mumbai Airport	415	1,88,23,485	23.6	-6,93,419	₹ 1,468.85
Thane	267	22,83,660	13.9	-13,146	₹ 1,140.74
Goregaon	217	1,77,29,379	12.1	6,91,561	₹ 2,618.21
Dadar	128	49,07,923	13.1	-1,14,128	₹ 1,238.49
Kalyan-Dombivli	761	3,48,11,302	19.6	-11,97,740	₹ 1,213.32
Mulund	472	1,13,72,599	9.8	-56,127	₹ 1,364.89
Vasai-Virar	36	34,52,173	5	40,388	₹ 1,286.41
Panvel	265	37,68,087	13.7	-44,416	₹ 1,589.25