

Grading report

March 18, 2024 | Mumbai

CRISIL assigns Fund Management Grading – 1 to Rental Yield Plus (RYP)



Detailed rationale

CRISIL has assigned **CRISIL Fund Management Grading – 1** to Rental Yield Plus (RYP), a Category II alternative investment fund (AIF) from Edelweiss Alternative Asset Advisors Ltd (EAAA), which is both the sponsor and investment manager (IM) of the fund. EAAA is a subsidiary of Edelweiss Securities and Investments Pvt Ltd (ESIPL), which, in turn, is a subsidiary of Edelweiss Financial Services Ltd (EFSL).

RYP fund (The Fund) is a new strategy within the EAAA platform and the first fund for the IM in the commercial real estate segment. The fund aims to earn returns comprising income and capital gains by investing in the commercial real estate assets, primarily office buildings, IT/SEZ/ITES buildings/parks.

The schemes graded 'CRISIL Fund Management Grading – 1' are judged to follow '**Very Strong**' standards in investment processes and management practices.

EAAA is a leading alternative asset manager in India with more than a decade of experience across its key strategies (private debt and real assets), strong investment management systems and processes, robust risk management framework and extensive experience of key personnel. The group has recently decided to sell up to 20% stake in EAAA. Our discussions with the fund management revealed that there will be no major changes to the functioning of the fund after the stake sale. However, in case of any further stake sale, aspects such as continuity of key management personnel, investment processes and risk controls may need to be factored.

EFSL is a leading financial services group with a broad spectrum of activities such as asset management, financial advisory and intermediary services, underwriting, financing (including construction and mortgage finance), capital markets, sales and trading, research, sponsoring and managing private investment funds and other activities.

RYP fund has well-defined processes and procedures for deal origination, investment decision-making, due diligence, deal structuring, asset monitoring and exits to ensure a disciplined investment approach in line with its investment guidelines.

RYP fund has a seven-member investment team with experience in real estate. It is a newly formed team, given that it is a new strategy for the platform. Senior members of the team have an average experience of 19 years in the real estate space. The head of the team is supported by one managing director and two investment directors. The IM team also has multi-level relationships with developers/promoters, IPCs, and bankers to create a robust transaction pipeline for the fund.

Research

The fund has an independent risk team that is involved from the pre-IC stage till the life cycle of the fund which reviews due diligence reports, notes prepared by the investment team to identify the risks and necessary mitigants. To ensure detailed evaluation of investments, reputed external agencies support the investment team in the technical, legal, forensic and other forms of due diligence. The fund has also established a separate operational risk team to enhance alignment of fund documents with processes, which acts as a second line of defence in this framework.

The operations and leasing team supports the investment team at the pre-investment stage and plays an important role at a post-investment stage. At the pre-investment stage, the team is involved in physical inspection of the assets and forecasting of expenses that may be incurred. It is also involved in reviewing the regulatory approvals for the asset under discussion. The inputs from this team are discussed at the IC meeting. Once the investment is made, the team regularly meets the tenants for their feedback, takes care of maintenance and enhancements of the assets and highlights risk and possible mitigants for the acquired assets.

The fund has a two-committee structure for making investment decisions which plays a critical role in the investment decision making process. First is the pre-investment committee (pre-IC) which includes senior members of the investment team, CRO and COO of EAAA. The proposed investments are evaluated by the pre-IC before detailed due diligence is conducted. The second is the investment committee (IC), which is a three-member committee in addition to invitees from risk, operations, and leasing teams. Two members of the IC are not involved in the deal evaluation process and provide an independent view. The fund does not have any external member from outside the Edelweiss group in the IC. Currently, the fund does not have any LP advisory committee, but it intends to form one.

The fund has adequate transparency in client communication and disclosure practices as it seeks to share quarterly portfolio updates, statement of accounts and annual reports with its clients.

EAAA is one of the largest alternative investment platforms in the country with over Rs 52,000 crore in assets under management (AUM) as of December 2023, across its key strategies. Commercial real estate being a newer strategy, the performance track record for the platform for this strategy is yet to be seen.

About the fund

RYP is a scheme under the Commercial Rental Yield Trust, established as a trust under the provisions of the Indian Trusts Act, 1882. It is registered with the Securities and Exchange Board of India as a Category II AIF under the AIF Regulations, to earn returns comprising income and capital gain, by primarily investing in the securities of the special purpose vehicles (SPVs)/companies owning, acquiring and/or holding high-quality operating commercial real estate assets in India or the Portfolio Companies to own/acquire such SPVs/companies. The target size of the fund is Rs 1,500 crore (with an additional greenshoe option of Rs 3,500 crore). EAAA is the IM and sponsor and Vistra ITCL (India) Ltd is the trustee of the fund.

The fund intends to invest in quality operating commercial real estate assets with predictable cash flows and potential to create additional value through active asset management and asset enhancement.

Scoring model

The schemes are assigned scores on a five-point scale, ranging from Fund Management Grading – 1 to Fund Management Grading – 5.

Research

Grading level	Definition
Fund Management Grading – 1	Scheme follows very strong standards in investment processes and management practices
Fund Management Grading – 2	Scheme follows strong standards in investment processes and management practices
Fund Management Grading – 3	Scheme follows adequate standards in investment processes and management practices
Fund Management Grading – 4	Scheme follows below average standards in investment processes and management practices
Fund Management Grading – 5	Scheme follows weak standards in investment processes and management practices

Link to related criteria: [Fund Management Grading Methodology](#)

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