

07 June, 2019

The Chief General Manager  
Investment Management Department  
Division of Funds-1  
Securities and Exchange Board of India  
SEBI Bhavan  
Plot No.C4-A,'G' Block  
Bandra Kurla Complex, Bandra (East)  
Mumbai 400 051



Dear Madam/Sir,

**Sub: Request for interpretative letter under the Securities and Exchange Board of India (Informal Guidance) Scheme, 2003 in connection with the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012**

This is a request for an interpretive letter under the Securities and Exchange Board of India (Informal Guidance) Scheme, 2003 ("the Scheme")

**Background**

- 1) Blacksoil Realty Trust ('BRT'/the 'Fund') is registered as a Category II Alternative Investment Fund with the Securities and Exchange Board of India ("SEBI") under SEBI (Alternative Investment Regulations), 2012 ("AIF Regulations") vide registration number IN/AIF2/13-14/0052.
- 2) BlackSoil Realty Investment Advisors LLP ("BRIA"/the "Manager") acts as the investment manager to the Fund.
- 3) BRIA wishes to seek informal guidance based on the facts and query raised in the application.

**Queries**

1. Investment in a Limited Liability Partnership firm ("LLP")

*Background*

- 1.1. In line with the Fund's investment strategy, the Fund makes investments in an LLP as capital contribution to such LLP.

*Relevant Regulations*

- 1.2. As per Regulation 17 - Conditions for Category II Alternative Investment Funds:

*Category II Alternative Investment Funds shall invest primarily in unlisted investee companies or in units of other Alternative Investment Funds as may be specified in the placement memorandum*



**BlackSoil Realty Investment Advisors LLP**

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Lower Parel, Mumbai - 400013.

Board line: 022-2481 2200 Website: www.blacksoil.co.in Email: info@blacksoil.co.in

1.3. Further, investee company is defined in Regulation 2 as:

*“(o) “investee company” means any company, special purpose vehicle or **limited liability partnership** or body corporate or real estate investment trust or infrastructure investment trust] in which an Alternative Investment Fund makes an investment”*

*Query*

1.4. Whether there would be any violation of the provisions of AIF Regulations on account of investment by BRT in an LLP by way of capital contribution to such LLP?

*Our contention*

1.5. Based on the reading of Regulation 17 read with Regulation 2(o), BRT should be permitted to invest in an LLP, therefore there is no violation of the provisions of AIF Regulations on account of investment by BRT in an LLP by way of capital contribution.

2. Investment primarily in debt securities of investee companies

*Background*

2.1. As a part of its investment strategy, the Fund has invests and intends to invest in debentures issued by investee companies.

*Relevant regulation*

2.2. Regulation 17 - Conditions for Category II Alternative Investment Funds:

*Category II Alternative Investment Funds shall invest **primarily in unlisted investee companies** or in units of other Alternative Investment Funds as may be specified in the placement memorandum*

*Query*

2.3. Regulation 17 of the AIF Regulations provides for investment by Category II AIF primarily in unlisted investee companies. Is it intended to cover only investment in equity shares of Indian entities? Whether investment by a Category II AIF in debt securities would lead to violation of provisions of AIF Regulations?

*Our contention*

2.4. We understand that Regulation 17 provides for investment in investee companies which could include investment in, amongst others, debt securities.

3. Maximum permissible investment in one investee company

*Background*

3.1. The Fund has a corpus of INR 148.40 crore by way of capital commitments from various investors. Out of the above, the expenditure for administration and management purposes is estimated at INR 6.98 crore.



#### Relevant Regulations

3.2. As per Regulation 15(1): General investment conditions:

*(c) Category I and II Alternative Investment Funds shall invest not more than twenty five percent of the **investible funds** in one **Investee Company**;*

3.3. Regulation 2 defines investible funds as:

*(p) "investible funds" means **corpus** of the Alternative Investment Fund net of estimated expenditure for administration and management of the fund*

3.4. Further, Regulation 2 also defines corpus as:

*"corpus" means the total amount of **funds committed by investors** to the Alternative Investment Fund by way of a written contract or any such document as on a particular date*

#### Query

3.5. Whether for the purpose of computing the 25% threshold of Regulation 15(1), the Fund should consider 25% of total commitment (less estimated expenses) or 25% of the total amount drawn down?

#### Our contention

3.6. Since Regulation 15(1) specifically mentions that for the purpose of computing the limits the **investible funds** should be considered, we understand that the commitment received from investors minus the estimated administration and management expenses should be considered.

#### 4. Borrowings by a Category II AIF for temporary liquidity requirements

##### Background

- 4.1. During the course of its operation, the Fund may face situations where it does not have liquidity to meet its expenses on account of lead time from raising funds from investors, delay in payment by investor/s, etc.
- 4.2. It may be necessary for the Fund to borrow money for such unavoidable circumstances for a short period of time.

#### Relevant Regulations

4.3. Regulation 17 prohibits a Category II AIF to borrow except for certain specific conditions:

*Category II Alternative Investment Funds may not borrow funds directly or indirectly and shall not engage in leverage except for meeting temporary funding requirements for **not more than thirty days, not more than four occasions in a year and not more than ten percent of the investable funds***



*Query*

- 4.4. If the Fund were to borrow INR 10 lakhs for a period of 29 days from the Manager (only one time in a year), would it tantamount to any violation of the above provision of AIF Regulations?

*Our contention*

- 4.5. Since all the three conditions viz. (i) borrowing for a period less than 30 days, (ii) borrowing for less than 4 occasions in a year and (iii) borrowing less than 10% of INR 141.42 crore are met, there is no violation of the conditions prescribed for temporary funding requirements for a Category II AIF.

5. Investment by sponsor and relative/s of sponsor in the Fund

*Background*

- 5.1. The sponsors of the Fund are Mr. Gnanesh Dungarshi Gala and Mr. Shashi Kiran Shetty. The sponsors have invested in the Fund for the purpose of mandatory sponsor investment requirements.
- 5.2. Moreover, the relatives of the sponsors have also invested in the Fund which is in excess of the mandatory sponsor investment requirements.

*Relevant Regulations*

- 5.3. As per Regulation 10, *the Manager or Sponsor shall have a continuing interest in the Alternative Investment Fund of **not less than two and half percent of the corpus or five crore rupees, whichever is lower**, in the form of investment in the Alternative Investment Fund and such interest shall not be through the waiver of management fees.*

*Query*

- 5.4. Whether there is any upper/maximum limit for investment made by the Manager or Sponsor?

*Our contention*

- 5.5. The AIF Regulations only provide for a minimum continuing interest to be invested or maintained by the Manager or Sponsor. We understand that there is no express condition in the AIF Regulations prescribing the maximum investment which can be made by the Manager or Sponsor/s (and relatives of the Sponsor/s). Hence, investment by the sponsors and their relatives can exceed the minimum continuing interest threshold prescribed under the AIF Regulations.

**Fees**

As per the requirements prescribed under the Scheme, the demand draft of INR 25,000/-, for the fees for seeking the interpretive letter has been attached.

Further, as per the provisions of Para 11 of the Scheme, we request you to give confidential treatment to the application for a period of 90 days from the date of SEBI's response.





We request you to contact Mr. Ankur Bansal, Cell No: 98202 54335 , email id: ankurbansal@blacksoil.co.in if you have any questions or require any clarifications with respect to this application or require any further information/documents/details and we shall provide the same at the earliest.

Thanking you in advance.

Yours sincerely,

For **Blacksoil Realty Trust** through its investment manager, **BlackSoil Realty Investment Advisors LLP**

Authorised Signatory

Name: Mohinder Pal Bansal

Designation: Investment Manager



**Encl:** Demand Draft No 793977 dated 06 June 2019 of Rs. 25,000/- drawn in favor of "Securities and Exchange Board of India"