



Connect

May 2014

Foreword

▶ **Rubi Arya**
Vice Chairman & Director



Dear Friends and Associates

Greetings from Milestone Capital. I warmly welcome you to the May'14 issue of CONNECT, our quarterly corporate e-newsletter.

I have always believed that change is good, even if the present is healthy. As we gear up for a new financial year, new goals, new initiatives and more importantly a new government, we at Milestone have also refreshed our brand to appropriately reflect a recharged Milestone, our value systems and aspirations to serve our investors even better. Our new identity reflects ***Vigour, Dynamism and Ability*** to face up to challenges without compromising on our legacy of Maturity, ***Transparency and Dependability*** that we have always stood for. Since inception, integrity of purpose was a fundamental factor in the development of Milestone and the new brand image captures this in its entirety - "The past leaps into the new".

The last quarter has been extremely vibrant at Milestone with consistent efforts on exits and providing profitable return on investment portfolio. We have exited from one of our commercial properties in Pune at an attractive investment multiple of 1.83x and are currently in discussions for other potential exits. We take pride in stating that we continue to outperform as one of the few top-quartile fund houses who have been able to distribute capital & income to investors, despite a highly volatile macro-economic environment. This exit once again demonstrates our Full cycle capability of Fund Raise, Deployment, Nurturing and Profitable Divestment.

The Indian real estate sector continues to be a preferred destination for investors. According to the Planning Commission, urban India will be home to over 600 million people by 2031; an increase of 59% from 2011. This along with sustained growth in employment, education and health care, will further push the demand for residential and commercial spaces pan India. Additionally, increasing migration to Metros and Tier 1 cities such as Mumbai, Delhi, NCR, Bangalore, Chennai & Pune will be the major driving force behind this increasing demand. We expect softening inflation would ease up interest rate leading to overall buoyancy in the real estate absorption. The huge latent demand in the housing sector will unfold once the economy stabilizes post the election results and the industry should focus on meeting this demand.

At Milestone, we have consistently capitalized on such favourable market opportunities and accordingly aligned our initiatives to provide business solutions. Bullish on the growth potential of the residential real estate sector, we feel that our new initiative, when launched, will fetch healthy returns for our investors. I am looking forward to bringing this product to you soon and I am confident that you will continue to support our initiatives as in the past.

I thank you all for your support and co-operation. Look forward to CONNECTing again shortly.

Business Updates

Real Estate Development Funds

The residential real estate segment has seen a moderate decline in absorption levels over the last quarter across most cities. The pace of new launches has also reduced due to high capital values and high inventory levels. The subdued demand has resulted in developers offering discounts to improve sales by designing promotional schemes such as free car parking, absorption of stamp duty and registration charges, interest free financing till possession, leading to overall discount of about 10% – 15% on capital values. We are witnessing better absorption rates in the mid housing segment compared to premium segment. On a pan India basis, this segment is showcasing a strong demand potential at affordable prices.

On the macro economic front, inflation has gradually tapered from the highs of the last couple of years. Though the interest rates have remained unchanged in this quarter, we expect the Reserve Bank of India (RBI) to reduce interest rates if the consumer inflation gradually comes down over next few months – however monsoon could play an important role in determining the interest rates. Overall reduction in rates is expected to boost demand since financing will become cheaper for both - real estate developers and home buyers.

We continue to focus on actively managing our investment and divestments from the portfolio. In the last quarter, we negotiated exits from three investments. We are in advanced stages of deploying the final capital draw down with reputed partners in mid-income housing projects.

► Milestone Domestic Scheme - I

Total Fund Size	Rs. 229 Crores
Total Fund Received	Rs. 219 Crores
Final Closing Date	31st March, 2008
Term	5 years + 1 year + 1 year
No. of Investments	15
Committed Amount	Rs. 218 Crores
Capital Divested	Rs. 127 Crores
Income Generated (Pre-tax)	Rs. 60 Crores
Total Exit Amount	Rs. 188 Crores (85%)

► Milestone Domestic Scheme - II

Total Fund Size	Rs. 425 Crores
Total Fund Received	Rs. 398 Crores
Final Closing Date	30th November, 2008
Term	4 years + 1 year + 1 year
No. of Investments	13
Committed Amount	Rs. 323 Crores
Capital Divested	Rs. 147 Crores
Income Generated (Pre-tax)	Rs. 83 Crores
Total Exit Amount	Rs. 230 Crores (58%)

► Milestone Domestic Scheme - III

Total Fund Size	Rs. 410 Crores
Total Fund Received	Rs. 392 Crores
Final Closing Date	31st January 2012
Term	3.5 years + 1 year + 1 year
No. of Investments	8
Committed Amount	Rs. 388 Crores
Capital Divested	Rs. 15 Crores
Income Generated (Pre-tax)	Rs. 73 Crores
Total Exit Amount	Rs. 88 Crores (22%)

► Milestone Fund LLC

Total Fund Size*	US\$ 75mn
Total Fund Received	US\$ 75mn
Final Closing Date	30th March, 2009
Term	6 years + 1 year + 1 year
No. of Investments	5
Committed Amount	INR 290 Crs. (US\$ 66mn)
Capital Divested	INR 28 Crs.
Income Generated (Pre-tax)	INR 54 Crs.
Total Exit Amount	INR 83 Crs (24 %)

* Exchange rate 1 US\$ = INR 45.32 at the time of fund received

We have recently exited our investment in the Cerebrum B2 project in Pune at an attractive investment multiple of 1.83x and currently pursuing the exit process for a number of our investments including the popular 247 Park in Mumbai.

Real Estate Rental Yield Funds

The commercial real estate market in India during the quarter ended March 2014 witnessed sluggish activity and reduced levels of project completions. Leading cities across the country continued to see heightened caution from corporate occupiers, resulting in subdued leasing activity. Occupiers focused on improving existing space utilization or relocation to peripheral and secondary micro-markets, with the majority of deal closures taking place for small to medium-sized office spaces. The IT/ITeS, and BFSI segments continued to drive demand for office space in India's leading cities.

However, with the corporate sector showing signs of shrugging off the recessionary phase, we expect demand for commercial office spaces to see an upward spurt not only in major cities but also in smaller micro markets owing to abundant availability of cost effective quality space. The general election results will play a pivotal role in the demand – supply scenario of commercial spaces.

At Milestone, our funds are fully committed and investments have been made across commercial, retail, warehousing and the IT Park space across India. We have recently exited our investment in the Cerebrum B2 project in Pune at an attractive investment multiple of 1.83x and currently pursuing the exit process for a number of our investments including the popular 247 Park in Mumbai.

► IL&FS Milestone Fund - I

Total Fund Size	Rs. 516 Crores*
Total Fund Received	Rs. 516 Crores
Final Closing Date	31st March, 2008
Term	4 years +1 year +1 year
No. of Investments	6
Committed Amount	Rs. 487 Crores
Capital Divested	Rs. 159 Crores
Income Generated (Pre-tax)	Rs. 265 Crores
Total Exit Amount	Rs. 424 Crores (82%)

*Includes the corpus of co-investment vehicles

► IL&FS Milestone Fund - II

Total Fund Size	Rs. 570 Crores*
Total Fund Received	Rs. 570 Crores
Final Closing Date	31st March, 2010
Term	4 years +1 year +1 year
No. of Investments	6
Committed Amount	Rs. 488 Crores
Capital Divested	Rs. 188 Crores
Income Generated (Pre-tax)	Rs. 188 Crores (33%)

*Includes the corpus of co-investment vehicles

► IL&FS Milestone Core Plus Retail Fund LLC

Total Fund Size	US\$ 22 mn*
Total Fund Received	US\$ 22 mn
Final Closing Date	19th December 2011
Term	5 years +1 year +1 year
No. of Investments	1
Committed Amount	Rs. 100 Crores
Capital Invested#	Rs. 75 Crores
Income Generated (Pre-tax)	Rs. 12 Crores (11%)

* Exchange rate 1 US\$ = INR 45.71 at the time of fund received

#Fund owns 19.5% in SPV stake

Bullion Products



Milestone Bullion Series – I provided investors with a unique investment opportunity to achieve portfolio diversification through investments into debentures - directly linked to physical Gold and Silver. These precious metals are globally known for their safe-haven demand in times of market turbulence.

The current market scenario, however, seems lackluster for the bullion metals on account of an upbeat macro-economic outlook and loss of interest from investment community. Much of the investment demand has already shifted towards riskier asset classes and the prices are currently finding their support from consumer's demand from China and India. Analysts expect the prices to remain in the consolidation phase with a few short bull rallies in coming months.

The Series has been actively carrying out exits & payouts for the investors while monitoring the bullion market activity closely. With the latest round of payouts made in the previous quarter, the series has concluded divestments of more than 60% of its investments at attractive final average prices.

► Milestone Bullion Series - I

Total Fund Size	Rs. 330 Crores
Total Fund Received	Rs. 330 Crores
Final Closing Date	31st October, 2010
Term	3 years +1 year
Committed Amount	Rs. 315 Crores
Capital Divested	Rs. 200 Crores
Income Generated (Pre-tax)	Rs. 75 Crores
Total Exit Amount	Rs. 275 Crores (83%)

Team Enhancement

Lalit Menghani, Associate Director - Fund Raising

With over 10 years of work experience, he was associated with Elara Capital Investment Banking leading the Equity and Debt capital markets practice and Financial Sponsors coverage group. Previously he has been with Standard Chartered Capital Markets and Crisil Ltd.

Apurva Gupta, Head – Sales & Leasing

He has 20 years of work experience and was last associated with HubTown Limited as Senior Vice President focusing on Sales & Marketing aspects. During his 14 months tenure in HubTown, heading Sales & Marketing Department for their entire portfolio of real estate projects in India. Previously he has worked with companies of repute like CBRE South Asia Pvt. Ltd., ICICI Bank, K.Raheja etc.

Nikhil Kejriwal, AVP - Real Estate Investments

With 9 years of work experience and was last associated with L&T Infra Finance as Team manager. Previously, he has worked with TCG Real Estate as part of the investment team for their offshore Real Estate fund evaluating and executing investment transactions across asset class. Before that he worked with Morgan Stanley in their Investment Banking vertical.

Smart Referrer

Did you know?

Out of the top five cities in Asia Pacific, Mumbai & Delhi feature as two cities having the highest Rental Yield in the Commercial Real Estate space. Mumbai, India's financial capital, offers a yield of 9% whereas New Delhi offers 8% rental yield on commercial real estate. The other cities that feature in the top 5 are Jakarta, Manila and Auckland.

South East Asian cities like Singapore, Hong Kong and Seoul offer relatively lower rental yields when compared to their Indian counterparts.

APAC Rental Snapshot 2014

MARKET	RENTAL CHANGE	YIELD AS AT YEAR-END 2014
AUCKLAND	▲ 7.5 - 8.5%	▼ 6.5%
JAKARTA	▲ 6 - 12%	▶ 9%
TOKYO	▲ 5 - 7%	▼ 3.3%
MANILA	▲ 1 - 4%	▼ 8.9%
BANGKOK	▲ 3 - 7%	▶ 6.3%
KUALA LUMPUR	▲ 2 - 3 %	▶ 6%
NEW DELHI	▶ 0 - 1%	▶ 8%
BEIJING	▶ 0 - 1%	▼ 4.6%
SEOUL	▼ 0 - 1%	▼ 4.4%
MUMBAI	▼ 2 - 4%	▶ 9%
MELBOURNE	▼ 1 - 2%	▶ 6.7%
SINGAPORE	▲ 10%	▲ 4%
SYDNEY	▼ 2 - 3%	▶ 6.1%
HONG KONG	▶ 0 - 3%	▲ 2.9%
TAIPEI	▶ 0.3 - 0.6%	▲ 2.2%
SHANGHAI	▼ 0 - 3%	▶ 4.5%

Source: CBRE Research (As of Feb 2014)



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