



# Connect

August 2015

## Foreword

▶ Rubi Arya  
Executive Vice Chairman



### *Dear Friends and Associates*

I am happy to present to you the August 2015 issue of CONNECT, our corporate e-newsletter.

The last quarter has been extremely robust and action filled, largely driven by significant exits, new investments and full fund closures of two of our funds. The highlight of the quarter is the successful exit from our investment in Mumbai's iconic 247 Park for a net enterprise value of Rs. 1060 crores. The investment which was made through the IL&FS Milestone Fund, has returned close to 20% IRR and a multiple of 2.3x on gross levels. The asset was sold to Blackstone, making it the largest commercial real estate exit by a PE fund in the country. When acquired in 2010, this again was the largest PE deal in real estate (commercial) at that time. The 247 Park is one of India's largest standalone LEED certified Gold rated building and we are extremely pleased to conclude this mega deal. While this is the first divestment from IL&FS Milestone Fund II, we have been able to return close to 90% of the fund's capital back to our investors through this exit.

We also exited from Millennium Tower II in Kolkata. Fully leased to IT giant IBM, the asset has generated an investment multiple of 1.6x. I am happy to share that we have fully closed one of our 2008 vintage funds, the Milestone Domestic Scheme I. Additionally, the 247 Park exit marks the closure of our offshore rental yield fund, the IL&FS Milestone Core Plus Retail LLC. From our structured debt fund, Milestone Domestic Scheme III, we concluded investments in 2 residential projects in South India, Landmark Torrence in Chennai and Pelican in Pondicherry.

**I am proud to share that with our relentless and razor sharp focus on exits, Milestone has divested 25 projects in the last 3 years and has now returned close to 100% of its entire real estate capital raised, probably the first by any domestic PERE fund platform.** In the last 18 months alone, Milestone has returned close to Rs. 1600 crores back to investors consistently across all our 7 real estate funds. This was possible by reinventing ourselves, restructuring our business and reshaping our investment strategy to focus on structured debt in line with the market. This approach has paid off well in a difficult market with gross pre-tax IRR from realized exits averaging above 20% in the last 3 funds launched since 2010; and 23% for our last residential fund, MDS III. We also achieved gross IRR's of 19-21% p.a. from realized exits in two of our REIT funds in the last 5 years. It is my belief, that as a value investor, one of our strategies is to invest when others are fearful and to sell when others are buying, which has greatly helped us achieve the alpha to the market.

We are now raising our 10th fund, a senior secured debt fund with upside appreciation to provide much needed capital in the current stressed environment, the Milestone Opportunities Fund 10 (MOF10). The goal is to invest alongside existing development partners in value for money residential projects in the top 5 metros, in projects with low leverage, minimal exit risk and 2-3 year time frames. From MOF10 we are in advanced stages of closing few deals in Mumbai and Bangalore.

We are also evaluating further business expansion activities such as a commercial & warehousing fund and launching our NBFC business as well.

I thank you all for your support and look forward to CONNECTing again.



# Business Updates

**We successfully exited from our investment in Mumbai's iconic 247Park for a net enterprise value of Rs. 1060 crores generating an IRR of 20% and a multiple of 2.3x**

## Improving Sentiments in Residential Real Estate

We are half way through 2015 and the first 6 months have thrown clear indications that 2015 will be the turnaround year for real estate in India. A series of reforms and announcements augmented the feel-good factor across India while benefiting Indian industry with a trickle down effect on real estate sector as well. Some of these measures include the incentives announced by RBI for infrastructure financing, the reduction in interest rates on home loans, policy incentives for affordable housing, announcement of a framework for REITs and relaxation of norms for foreign direct investment in construction. Considering this scenario, developers are likely to come up with more offerings in the mid and affordable housing segments, rather than focusing purely on premium projects, where the margins are higher but off-take has been slower. These developments will help arouse buyer interest and trigger better sales in residential units compared to previous years. The pick-up in office demand led by e-commerce players and IT/ITES sectors is likely to improve housing demand over the next few quarters.

At Milestone, all are funds are fully committed. We have recently invested Rs 75 crores in a residential property in Chennai and are in the process of finalizing investments in Mumbai & Bangalore as part of our new fund strategy.

## Commercial Real Estate attracts a large share of investor interest

Average capital values in the commercial real estate sector are still 25% lower than the peaks seen in mid-2008. Given that commercial rental and capital values have bottomed out considerably in most major cities in India over the last couple of years, commercial real estate is now attracting a larger share of investor interest.

A total of 35.6 million sq. of office space is expected to become operational this year. This is expected due to the robust pre-commitments in many under-construction projects in various cities and overall positivism among the office occupiers. Cities such as Bangalore, Chennai and Pune will see relatively better growth in rental in a range of 4-7% due to their low base and also stronger demand scenario expected in 2015.

The IL&FS Milestone Fund II closed one of the most high value and prestigious exits from its investment in 247Park Vikhroli to Blackstone, one of India's largest foreign institutional investors at a realized investment gross IRR of 20% pre-tax. This is by far one of the largest exit done by a private equity fund in the commercial real estate market in India.

We continue to evaluate exit opportunities from our existing assets and at the same time evaluate opportunities for raising commercial funds in the near future.

# Business Updates

## Fund Raise Summary & Performance

As on 31st July 2015

# Knight Frank valuation adjusted after capital distribution made post 31st March, 2015								
All figures shown in Rupees (Crores)	FUNDS RAISED	CLOSING	INVESTMENTS	AMOUNT RETURNED (Capital + Income)		REALISED GROSS IRR	VALUATION OF UNDIVESTED CAPITAL*	PROJECTED GROSS IRR
<b>DEVELOPMENT FUNDS (2007-2010)</b>								
MILESTONE DOMESTIC FUND I	219	Mar-08	15	262	120%	7%	17	7%
MILESTONE DOMESTIC FUND II	398	Nov-08	13	397	100%	19%	147	14%
MILESTONE FUND LLC	341	Mar-09	5	85	25%	14%	357	14%
	<b>958</b>		<b>33</b>	<b>744</b>	<b>78%</b>		<b>521</b>	
<b>STRUCTURED DEBT (2010-2011)</b>								
MILESTONE DOMESTIC SCHEME III	394	Jan-12	10	274	70%	24%	294	21%
<b>PRIVATE REITs (2007-2011)</b>								
IL&FS MILESTONE FUND I	516	Mar-08	6	700	136%	13%	30	11%
IL&FS MILESTONE FUND II	570	Mar-10	6	542	95%	19%	329	15%
IL&FS MILESTONE CORE PLUS RETAIL FUND LLC	100	Dec-11	1	137	137%	21%	9	-
	<b>1,186</b>		<b>13</b>	<b>1,379</b>	<b>116%</b>		<b>368</b>	
<b>PORTFOLIO MANAGEMENT SERVICES</b>								
MILESTONE BULLION SERIES I	330	Oct-10	-	389	118%	6%	FUND FULLY EXITED	-
<b>TOTAL</b>	<b>2,868</b>		<b>56</b>	<b>2,786</b>	<b>97%</b>		<b>1,183</b>	
<b>DIVESTED BUSINESS</b>	<b>833</b>							
<b>TOTAL FUNDS RAISED BY MILESTONE</b>	<b>3,701</b>							
REAL ESTATE FUNDS		2,538	<b>Number of investments</b>		56 investments pan India.			
BULLION PRODUCTS		330	<b>Performance across funds</b>		25 exits across real estate funds			
EQUITY LINKED NOTES		400	97% of all funds raised returned by way of capital & income					
*EDUCATION & HEALTHCARE FUND (DIVESTED)		433						
<b>TOTAL FUNDS RAISED BY MILESTONE</b>		<b>3,701</b>						

## Team Enhancement



### Kuldip Chawla – Managing Partner, Real Estate (Commercial)

Kuldip will be responsible for driving fund raising and growing the commercial real estate business. He brings with him an experience of over 27 years across Banking, Private Equity, Infrastructure & Real Estate practices. His real estate development and investment experience of over 12 years spans the complete life cycle of fund raising, investment origination, transaction structuring, risk mitigation, asset management and exit consummation, across a pan India portfolio of development and core projects. Prior to joining Milestone, Kuldip has held leadership roles global & Indian organizations, the last being at Red Fort Capital.

# Smart Referrer

Foreign investments into India are primarily regulated by primarily three regulators, the Reserve Bank of India, the Foreign Investment Promotion Board and the Department of Industrial Policy and Promotion. In addition to these regulators, if the securities are listed or offered to the public, dealings in such securities shall also be regulated by the Indian securities market regulator, Securities and Exchange Board of India. Foreign investment norms for real estate have been recently liberalized to allow fresh capital to be infused into the sector. Pasted below are the revisions to the same

Provisions	Revised policy	Existing Policy
Minimum Land Requirements	<ul style="list-style-type: none"> <li>i. Development of serviced plots: No minimum land requirement;</li> <li>ii. Construction-development projects: Minimum floor area of 20,000 sq. meters;</li> <li>iii. Combination project: Any of the above two conditions need to be complied with</li> </ul>	<ul style="list-style-type: none"> <li>i. Development of serviced housing plots: Minimum area of 10 hectares;</li> <li>ii. Construction-development projects: Minimum built-up area of 50,000 sq. meters;</li> <li>iii. Combination project: Any of the above two conditions to be complied with.</li> </ul>
Minimum Capitalization Requirements	USD 5 million	For wholly owned subsidiary: minimum capitalization of USD 10 million; For joint ventures with Indian partners: minimum capitalization of USD 5 million.
Timing of Investment	The funds would have to be brought in within 6 months of commencement of the project. Subsequent tranches can be brought in till the earlier of: <ul style="list-style-type: none"> <li>i. Period of 10 years from the commencement of the project; or</li> <li>ii. The completion of the project.</li> </ul>	The funds would have to be brought in within 6 months of 'commencement of business of the Company'.
Lock-in	The investor is permitted to exit from the investment at (i) 3 years from the date of final installment, subject to development of trunk infrastructure, or (ii) on the completion of the project. Repatriation of FDI or transfer of stake by a non-resident investor to another non-resident investor would require prior FIPB approval.	The investor is permitted to exit from the investment at expiry of 3 years from the date of completion of minimum capitalization. For investment in tranches: The investor is permitted to exit from the investment at the later of (a) 3 years from the date of receipt of each tranche/ installment of FDI, or (b) at expiry of 3 years from the date of completion of minimum capitalization. Prior exit of the investor only with the prior approval of FIPB.
Sale of developed plots only	Only developed plots are permitted to be sold. The requirement of completion certificate has been done away with.	Sale of undeveloped plots prohibited. The investor was required to provide the completion certificate from the concerned regulatory authority before disposal of serviced housing plots.
Minimum development	No requirement of any such minimum development.	At least 50% of the project must be developed within a period of 5 years from date of obtaining all statutory clearances.
Exemption	No longer exempt from the sale of undeveloped plots.	Certain investments were exempt from complying with the following requirements: (i) minimum land area; (ii) minimum capitalization, (iii) lock-in, (iv) 50% development within 5 year requirements and (v) sale of undeveloped plots.

Source: Nishith Desai Associates - Report on Private Equity & Debt in Real Estate



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