



Connect

February 2014



Foreword

Rubi Arya
Director & Vice Chairman

Dear Friends and Associates

I warmly welcome you to the February'14 issue of CONNECT, our quarterly corporate e-newsletter.

The past year has been extremely valuable for us, in terms of consolidating our position as a trusted and valued brand in private equity. Having focused on maintaining regular liquidity for our investors, we have also been able to exit few investments at attractive valuations. We take pride in stating that we continue to perform as one of the few top-quartile fund houses who have distributed capital & income of over INR 1500 crores to investors, despite a highly volatile macro-economic environment. Strictly adhering to our 'Active Management' philosophy, we continue to engage with investee companies at all levels of operations to ensure we deliver the alpha and generate sustained return on investments at healthy multiples.

Despite subdued growth in the economy, Real Estate in India continues to be a favoured destination globally for investors, developers and NRIs; and 2013 till date has witnessed capital inflow in Indian Realty Industry to the tune of USD 1.9 Bn. Also, proposed REITs, Government policies and the undergoing Banking Sector reforms would impart the much needed liquidity in the Real Estate Sector.

The Residential sector has witnessed a sign of demand revival and after continuous price rise over the last 4-5 years, prices are expected to remain at the same level over the next year. Real Estate as an asset class as well as the latent demand for Real Estate remains high amongst end users, making the medium term outlook in this sector quite robust. The rupee depreciation has ensured there is positive upsurge in the NRI demand and the currency having stabilized, the same is expected to continue. Mid income housing is expected to see good traction with interest rates expected to soften in the near term. Demand for affordable housing is on the rise. There is also an opportunity for Funds to partner with developers in niche projects like Senior Living or Thematic Funds for Education & Healthcare sectors where demand is picking up.

In the Commercial realty space, both prices & rentals have bottomed out making it an opportune time to invest for those seeking appreciation of capital as well as regular cash flow. From Milestone's portfolio of INR 1500 crores of ready commercial assets, we have been consistently distributing yield income to investors for past 24 quarters and have recently made an exit from one of our investments in Pune at a healthy IRR. Apart from the Real Estate business, our Bullion Series Fund has been systematically reviewing its holdings and has recently completely divested its holdings in physical Gold recently. It is currently evaluating opportunities for reducing its holdings in silver.

While the outlook in the economy is positive and encouraging, we will await the results of the upcoming elections to introduce our new initiative in the Real Estate PE space.

Business Updates

Real Estate Development Funds

Weekend macro environment, increased prices, high interest rates and impending elections have led to deferment of Real Estate investment decisions. Developers have selectively started to offer freebies in order to improve sales. Also, given the high latent demand amongst end users and investors, the medium term outlook for the residential sector remains robust and in the coming 6-12 months, on the expectation of a lower inflation rate, we can look forward to higher interest amongst home buyers to go ahead with their purchases.

Milestone successfully raised funds recently and utilized the drawdown by investing Rs 65 crores in a residential project of ATS Group in Greater Noida. Focus is on partnering developers with strong execution capability targeted at mid-segment residential projects.

We believe this is a right time for us to invest and partner with high quality developers in growing micro markets to ride the next wave of the real estate cycle. We continue to evaluate deals to invest the final capital drawdown over the next 2 months.



ATS Dolce - Greater Noida, NCR

► Milestone Domestic Scheme - I

Total Fund Size	Rs. 229 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. 130 Crores
Income Generated (Pre-tax)	Rs. 56 Crores
Total Exit Amount	Rs. 185 Crores (81%)

► Milestone Domestic Scheme - II

Total Fund Size	Rs. 425 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. 150 Crores
Income Generated (Pre-tax)	Rs. 78 Crores
Total Exit Amount	Rs. 228 Crores (54%)

► Milestone Domestic Scheme - III

Total Corpus Raised	Rs. 410 Crores
Final Closing Date	31st January 2012
Term	3.5 years + 1 year + 1 year
No. of Investments	8
Committed Amount	Rs. 321 Crores
Capital Divested	Rs. 15 Crores
Income Generated (Pre-tax)	Rs. 45 Crores
Total Exit Amount	Rs. 60 Crores (15%)

► Milestone Fund LLC

Total Fund Size*	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 49 Crs.
Total Exit Amount	INR 77 Crs (22%)

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



“The Fund has recently exited its investment into a commercial building in Pune, namely Cerebrum – B2 at a healthy IRR and is in advanced talks to divest its holdings in Kolkata commercial asset.

Real Estate Rental Yield Funds

In the past year, interest in commercial leased assets has seen northward movement with lot of traction in Grade A office space assets that have been leased or are near completion and hence do not have any residual development risk. PE funds, both domestic & FDI, are scouting for leased assets and are actively investing in them. The Indian economy has witnessed high Interest rate scenario across and one can expect higher rental yields at low capital values in this segment leading to capital appreciation via yield compression in the coming years.

The total office space absorption across 7 leading cities of the country stood at approximately 28mn sq. ft. by end 2013 - a YOY growth of about 8.7%. With REITs expected to come in Indian markets, the transparency and liquidity in the commercial market is bound to increase.

The Fund has recently exited its investment into a commercial building in Pune, namely Cerebrum – B2 at a healthy IRR of 14 % and is in advanced talks to divest its holdings in a Kolkata commercial asset and in a warehousing asset of area 1.1 mn sq.ft. in Bhiwandi, Mumbai for its first series portfolio.

► IL&FS Milestone Fund - I

Total Fund Size	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. 259 Crores
Total Exit Amount	Rs. 418 Crores (81%)

*Includes the corpus of co-investment vehicles

► IL&FS Milestone Fund - II

Total Fund Size	Rs. 570 Crores*
Final Closing Date	31st March, 2010
Term	4 years +1 year +1 year
No. of Investments	6
Committed Amount	Rs. 508 Crores
Capital Divested	Rs. 179 Crores
Income Generated (Pre-tax)	Rs. 179 Crores (31%)

► IL&FS Milestone Core Plus Retail Fund LLC

Total Fund Size	US\$ 73 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 (12%)

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



Bullion Products



Milestone Bullion Series – I was raised with a focus to provide portfolio diversification through a unique investment opportunity in physical Gold, Silver and Gold Linked Structures. In addition to the returns from appreciation in metal prices, the capital protected Gold Linked Debentures allow investors to gain from the participation on the upside of Gold price movements while protecting the investments on the downside. The fund, through a systematic liquidation strategy, has taken advantage of the significant appreciation in prices of precious metals, and has returned over 50% of its capital commitment with healthy returns.

The fund has completely liquidated its gold reserves and keeping a moderate bullish outlook for the short term, will continue to liquidate the remaining assets in an optimal manner.

The fund initiated its investments in Gold and Silver at prices near Rs 18,000/10Gms and Rs 34,000/KG levels respectively. The precious metal prices have appreciated significantly since then and the fund has been employing a systematic liquidation strategy to capture these returns for investors.

► Milestone Bullion Series - I

Total Fund Size	Rs. 330 Crores
Final Closing Date	31st October, 2010
Term	3 years + 1 year
Committed Amount	Rs. 315 Crores
Capital Divested	Rs. 175 Crores
Income Generated (Pre-tax)	Rs. 75 Crores
Total Exit Amount	Rs. 250 Crores (76%)

Team Enhancement

Alok Aggarwal, Managing Partner & CEO- Real Estate

He has over 26 years of experience. Having extensive Principal level experience in real estate across asset classes, he has been involved into investments & exits in Residential, Commercial, Hotels, Retail, Warehousing & Mixed-use development. Earlier, he has served as Director, SUN-AREA Property Partners, a JV between ARES Management (a global alternative asset manager with \$68 billion AUM) & SUN Group, apart from working in senior positions at companies like DLF, The Chatterjee Group and Mahindra GESCO. He is a B. Tech from IIT Delhi & MBA from ISB, Hyderabad.



Smart Referrer



National Housing Bank RESIDEX Index

Keeping in view the prominence of housing and real estate as a major area for creation of both physical and financial assets and its contribution to the overall National wealth, the National Housing Bank (NHB) at the behest of The Ministry of Finance has developed the NHB RESIDEX Index. The index provides a snapshot of price movement in the residential housing segment across major cities in India.

CITIES	Base Year 2007	Apr-Jun 2011	Jul-Sept 2011	Oct-Dec 2011	Jan-Mar 2012	Apr-Jun 2012	Jul-Sept 2012	Oct-Dec 2012	Jan-Mar 2013	Apr-Jun 2013	Jul-Sept 2013	Oct-Dec 2013
Hyderabad	100	91	84	79	86	85	84	90	88	84	88	93
Faridabad	100	220	206	218	217	217	216	205	207	202	204	209
Patna	100	146	141	140	129	140	138	151	152	147	150	159
Ahmedabad	100	169	163	167	164	174	180	191	192	186	191	197
Chennai	100	248	271	296	304	309	312	314	310	303	318	330
Jaipur	100	64	65	64	80	78	85	87	112	110	108	105
Lucknow	100	160	154	165	164	171	175	189	183	187	191	185
Pune	100	150	169	184	181	200	201	205	221	219	219	235
Surat	100	149	139	152	144	145	138	150	140	142	145	154
Kochi	100	107	97	82	72	73	80	87	89	86	86	85
Bhopal	100	224	208	211	204	207	206	216	230	227	220	223
Kolkata	100	194	191	190	191	196	191	209	197	189	199	196
Mumbai	100	181	194	193	190	197	198	217	222	221	222	222
Bengaluru	100	92	93	100	92	100	98	106	109	108	107	111
Delhi	100	147	154	167	168	172	178	195	202	199	190	196



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