



Connect

August 2014

Foreword

▶ **Rubi Arya**
Vice Chairman & Director



Dear Friends and Associates

Greetings from Milestone Capital Advisors. I am happy to present to you the August' 14 issue of CONNECT, our quarterly corporate e-newsletter.

The past quarter has been extremely positive for the real estate industry. The Union budget has provided a huge window of opportunities to stimulate the growth of this sector. The tax pass through status for REITs will not only provide the much required liquidity to developers but also attract long term capital from domestic and foreign sources including NRIs and hence will prove to be extremely beneficial for an organization such as ours. Milestone is the only Indian PE fund house managing commercial assets in excess of Rs 1500 crores, which stands to benefit from the introduction of REITs.

Real estate as an asset class, is poised to offer one of the most attractive risk adjusted returns over the next 3 – 5 years owing to lesser dependence on external factors, as compared to other asset classes. Traditional debt products have lost their flavour and equities continue to remain influenced by the global macro environment & monetary policies of developed countries. With the expected upturn in investment cycle backed by reduction in key lending rates, the latent demand for real estate across the country will manifest itself in terms of higher sales velocity and price appreciation. Further, consumer sentiment in this sector will be positively impacted by the government's policy initiatives of creating smart cities, promoting affordable housing, improving infrastructure connectivity across key urban regions and introducing bills such as Real Estate Development and Regulation Bill leading to enhanced transparency.

Going with the theme of sustained growth & development laid out by the central government, we at Milestone too have embarked on a long term growth plan. We have announced the launch of our **TENTH** fund in the real estate space. The '**Milestone Opportunities Fund 10**' is a close ended residential real estate fund with a short tenure of 3.5 years investing in mid-segment housing in fast growing urban micro markets in India. This Rs 500 crore fund is primarily a structured debt fund and seeks to offer its investors regular income through coupon payments apart from potential gains via capital appreciation. The introduction of this fund makes us the **ONLY** real estate PE Firm in India to have raised nine funds and demonstrated successful divestments at healthy valuations.

Also, I am happy to inform you that Milestone has demonstrated relative outperformance in a study conducted by Venture Intelligence- an independent PE & VC analytics company covering top 8 real estate PE fund houses in India. The study was conducted across various parameters like diversification of investment portfolio, number of funds raised in real estate and amount returned to investors during the period 2008-2013. A noteworthy mention would be that we have returned 46% of our real estate funds raised as against the rest of industry average of 34%. Overall, we have returned Rs 1650 crores by way of capital and income to our investors so far.

We have commenced operations of our trusteeship business – Milestone Trusteeship Services Ltd. which is being driven by senior personnel from the industry.

I thank you all for your support and look forward to sharing the progress of our **TENTH** fund offering when I CONNECT again.

Business Updates

Real Estate Development Funds

Post the formation of a new stable union government focused on reforms and development, real estate sector is poised for further growth in the coming years. Several budgetary initiatives viz reduction of minimum capitalization of FDI norms , proposed bill to regulate the development of real estate and clarity on taxation for setting up REITs is expected to provide liquidity and improved transparency to the sector. The government's vision of housing for all by 2022 and subsequent investment of approximately Rs 4000 crores will also provide the necessary impetus for the desired growth. Additionally, the rebate under housing loan on self-occupied property being raised from Rs 1.5 lakhs to 2 lakhs will further incentivize buyers to purchase homes, thereby increasing the demand for mid segment housing.

Majority of this demand for increased housing in the next few years will be witnessed in metro & tier 1 cities which possess the required infrastructure and are centers for job creation. At Milestone we are evaluating investment opportunities to deploy capital in NCR, Mumbai and Bangalore with reputed developers focused on middle income housing to deliver returns upwards of 22% IRR to our investors.

During the last quarter, we have exited four portfolio investments (fully & partially) and distributed Rs 76 crores back to our investors.

► Milestone Domestic Scheme - I

Funds 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. 143 Crores
Income Generated (Pre-tax)	Rs. 68 Crores
Total Divested Amount	Rs. 210 Crores (96%)

► Milestone Domestic Scheme - II

Funds 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. 160 Crores
Income Generated (Pre-tax)	Rs. 82 Crores
Total Divested Amount	Rs. 241 Crores (61%)

► Milestone Domestic Scheme - III

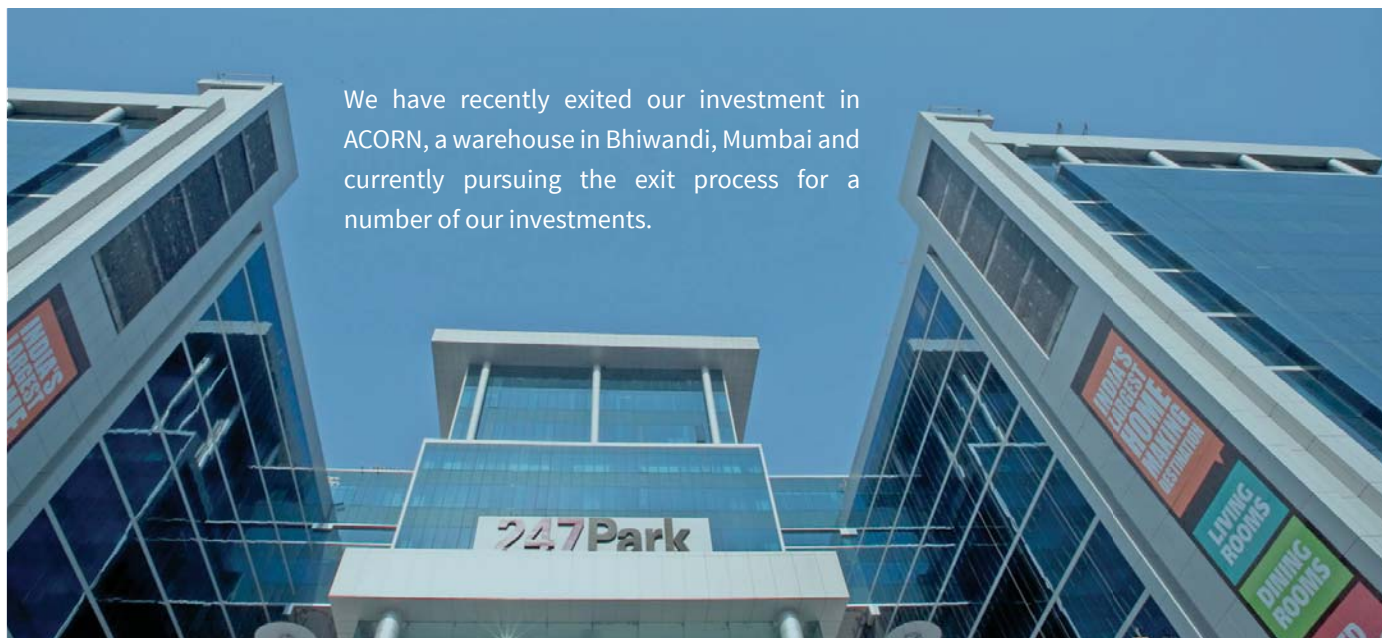
Funds Received	Rs. 394 Crores
Final Closing Date	31st January 2012
Term	3.5 years + 1 year + 1 year
No. of Investments	8
Committed Amount	Rs. 306 Crores
Capital Divested	Rs. 15 Crores
Income Generated (Pre-tax)	Rs. 85 Crores
Total Divested Amount	Rs. 100 Crores (25%)

► Milestone Fund LLC

Funds Received*	US\$ 75 mn
Final Closing Date	30th March, 2009
Term	6 years + 1 year + 1 year
No. of Investments	5
Committed Amount	US\$ 66 mn
Capital Divested	INR 283 mn (US\$ 5 mn)
Income Generated (Pre-tax)	INR 560 mn (US\$ 9 mn)
Total Divested Amount	INR 843 mn (25 %)

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

We have recently exited our investment in ACORN, a warehouse in Bhiwandi, Mumbai and currently pursuing the exit process for a number of our investments.



Real Estate Rental Yield Funds

Along with the residential real estate sector, the commercial sector too is poised to witness increased investment from both domestic and international investors. The tax pass through status for the Real Estate Investment Trusts (REITs) and introduction of Infrastructure Investment Trusts (INVITS) will boost the quantum of money invested in commercial real estate. With SEBI regulating the overall functioning of REITs and INVITS, and the Finance ministry agreeing to treat returns from REIT income at par with equities, investors will have the added confidence to park their money in these unique real estate investment opportunities.

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 ACORN, a warehouse in Bhiwandi, Mumbai and currently pursuing the exit process for a number of our investments. During the last quarter, we have distributed Rs 106 crores back to our investors.



► IL&FS Milestone Fund - I

Funds 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. 284 Crores
Income Generated (Pre-tax)	Rs. 270 Crores
Total Divested Amount	Rs. 554 Crores (107%)

*Includes the corpus of co-investment vehicles

► IL&FS Milestone Fund - II

Funds 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
Income Generated (Pre-tax)	Rs. 192 Crores (34%)

*Includes the corpus of co-investment vehicles

► IL&FS Milestone Core Plus Retail Fund LLC

Funds Received	US\$ 22 mn
Final Closing Date	19th December 2011
Term	5 years +1 year +1 year
No. of Investments	1
Committed Amount	US\$ 22 mn
Income Generated (Pre-tax)	INR 120 mn (11%)

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

Bullion Products



Precious metals are widely preferred as an alternative investment asset class which in addition to safe-guarding the investments in times of market turbulence also provides inflation adjusted returns in the long term. Recently, the markets for bullion metals have remained in a lull on account of low safe-haven demand and improved global economic sentiments. The investment demand, in particular, has dropped sharply. Gold and Silver prices are oscillating around US\$1290/Oz and US\$21/Oz levels respectively.

However, the lower metal prices have also given a considerable boost to the consumer demand from industrial and jewellery sectors which is now supporting the prices. Safe-haven purchases may also resume if the geo-political tensions in Ukraine

and Iraq spiral out of control. Demand from India, the second biggest importer of Gold after China, is expected to improve further in the coming quarter as the festival season draws near.

Our fund has been actively carrying out exits & payouts for the investors and we aim to liquidate the balance holdings well within the stipulated life of the fund.

► Milestone Bullion Series - I

Funds Received	Rs. 330 Crores
Final Closing Date	31st October, 2010
Term	3 years +1 year
Committed Amount	Rs. 315 Crores
Capital Divested	Rs. 191 Crores
Income Generated (Pre-tax)	Rs. 84 Crores
Total Divested Amount	Rs. 275 Crores (83%)

Team Enhancement

Dhruv Jain, Chief Financial Officer & Head – Risk Management

With over 21 years of experience in financial control, treasury, budgeting, MIS & risk mitigation across financial services and telecommunications sectors, he was previously was the Group CFO at India Infoline Limited (IIFL) and has also played key roles in organizations such as CitiFinancial, Bharti Airtel, Kotak Securities and ITC Classic Finance.

Sonali Shelke, AVP – Fund Raising

With over 6 years of work experience, she was last associated with Kotak Mahindra Investments where she was involved in sourcing and execution of real estate and healthcare lending and advisory transactions. She handled a part of the Mumbai portfolio for the real estate team and covered western and southern India for the healthcare lending business.

New Business Vertical



Milestone Capital Advisors has recently launched its Trusteeship Venture – **Milestone Trusteeship Services Pvt. Ltd (MTSL)**. The newly formed venture will provide trusteeship services in the areas of corporate debt issuances, structured products, employee stock option plans, pass-through certificates and will be spearheaded by Mr. Dhruv Jain, our newly appointed CFO & Head – Risk Management.

Smart Referrer



Did you know, amongst its BRICS counterparts, India ranks the lowest in real estate transparency. At the biennial Global Real Estate Transparency Index conducted by JLL & LaSalle Investment Management amongst 102 countries, India was ranked 40 whereas, South Africa, Brazil, China & Russia stood at ranks 20, 28 35 and 37 respectively. However, India fared better than countries such as South Korea, Mexico UAE and Qatar. The introduction of the proposed real estate regulator, single window clearance, introduction of REITs will go a long way in improving India's transparency ranking.

Transparency Level	2014 Composite Rank	Market	2014 Composite Score
High	1	United Kingdom	1.25
	2	United States	1.34
	3	Australia	1.36
	4	New Zealand	1.44
	5	France	1.52
	6	Canada	1.52
	7	Netherlands	1.57
	8	Ireland	1.62
	9	Finland	1.69
Transparent	10	Switzerland	1.73
	11	Sweden	1.79
	12	Germany	1.79
	13	Singapore	1.81
	14	Hong Kong	1.87
	15	Belgium	1.92
	16	Denmark	1.96
	17	Poland	2.02
	18	Spain	2.05
	19	Norway	2.07
	20	South Africa	2.09
Semi	21	Austria	2.10
	22	Italy	2.10
	23	Portugal	2.18
	24	Czech Republic	2.20
	25	Hungary	2.21
	26	Japan	2.22
	27	Malaysia	2.27
	28	Brazil - Tier 1	2.44
	29	Taiwan	2.55
	30	Romania	2.56
	31	Israel	2.63
	32	Slovakia	2.66
	33	Greece	2.71
	34	Turkey	2.72
	35	China - Tier 1	2.73
36	Thailand	2.76	
37	Russia - Tier 1	2.82	
38	Philippines	2.84	
39	Indonesia	2.85	
40	India - Tier 1	2.86	
41	Mexico	2.89	
42	India - Tier 2	2.90	
43	South Korea	2.90	
44	Puerto Rico	2.95	
45	Brazil - Tier 2	2.95	
46	Croatia	3.00	
47	China - Tier 2	3.04	
48	Botswana	3.09	
49	UAE - Dubai	3.11	
50	India - Tier 3	3.14	
51	Mauritius	3.14	

Transparency Level	2014 Composite Rank	Market	2014 Composite Score
Semi	52	Chile	3.19
	53	UAE - Abu Dhabi	3.20
	54	China - Tier 3	3.26
	55	Kenya	3.29
	56	Cayman Islands	3.29
	57	Argentina	3.37
	58	Oatar	3.37
	59	Russia - Tier 2	3.37
	60	Bahrain	3.40
	61	Peru	3.44
	62	Slovenia	3.47
Low	63	Zambia	3.49
	64	Colombia	3.54
	65	Serbia	3.55
	66	Bulgaria	3.55
	67	Saudi Arabia	3.57
	68	Vietnam	3.59
	69	Jordan	3.62
	70	Russia - Tier 3	3.63
	71	Macau	3.65
	72	Egypt	3.67
	73	Panama	3.70
	74	Ukraine	3.71
	75	Kuwait	3.74
	76	Morocco	3.76
	77	Uruguay	3.77
78	Costa Rica	3.81	
79	Bahamas	3.83	
80	Oman	3.88	
81	Lebanon	3.90	
82	Uganda*	3.97	
83	Ghana	3.98	
84	Kazakhstan	3.98	
85	Jamaica	4.01	
86	Nigeria	4.03	
87	Venezuela	4.11	
88	Mozambique*	4.20	
89	Guatemala	4.20	
90	Algeria	4.20	
91	Dominican Republic	4.21	
Opaque	92	Tunisia	4.23
	93	Pakistan	4.25
	94	Belarus	4.29
	95	Angola	4.36
	96	Honduras	4.41
	97	Iraq	4.45
	98	Ethiopia*	4.46
	99	Mongolia	4.47
	100	Myanmar*	4.48
	101	Senegal*	4.52
	102	Libya	4.63



Source - JLL & LaSalle Investment Management



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