

A Yield Driven Real Estate Fund

April-June 2014

Dear Investors

We are pleased to present the Fund Update for the period ending June 30th 2014 for the IL&FS Milestone Fund I (Fund).

Expectations of an economic turnaround were belied with GDP growth slowing down to about 4.7% for FY 2013-14, marking it as the second straight year with below-5% growth. Agriculture grew at 6.3% q-o-q, while manufacturing growth dipped to a low of about 1.4% q-o-q. A persistent global economic slowdown hemmed in India's exports sector as well, further hindering growth prospects.

Commercial leasing activity picked up marginally in the month of May, clocking about 6% q-o-q growth, the quantum of leased space touched its peak for 2014 so far. Demand was seen to be increasing for small to medium-sized office spaces for the most part, even though the leasing quantum was driven by a few large transactions in Bangalore, Chennai, Hyderabad and Pune—contributing about 70% to the entire space transacted during May.

Bangalore remained the largest contributor to office space demand, followed by Pune and Delhi NCR; representing about 66% of the total space transacted during the month. Occupier interest remained strong in micro-markets such as the ORR and Whitefield in Bangalore, the IT Corridor and Extended IT Corridor in Hyderabad, Yerwada in Pune, and the peripheral regions of Delhi NCR (e.g. Gurgaon). Sectors such as IT, BFSI, manufacturing, telecommunications and pharmaceuticals continued to drive demand for office space, with more than 65% of total demand being concentrated in back-office spaces. SEZ developments remained muted during this period. Rental values largely remained stable across all micro-markets.

The retail market witnessed stable demand—mostly driven by retailers from the fashion and apparel, F&B, fashion accessories, and electronics segments, which continued to strengthen their presence across cities during the month. High street locations continued to observe healthy leasing activity; while limited space availability led to restricted retail activity in prominent mall developments across most leading cities. The number of new retail entrants remained low during the month. Rental values continued to remain stable in most high streets and organized mall clusters across the country. (Source – CBRE India)

IL&FS Milestone Fund-I is fully committed and invested across 6 investments (of which 3 exited - 2 fully exited & 1 partially exited) in the commercial, retail, warehousing and the IT Park space across India. During the current quarter, the fund has divested its warehouse asset in Bhiwandi (Acorn Warehouse) at an investment IRR of 11.3% (pre-tax). The Fund has returned to the investors 81% (Rs 104.50 Crores) of the money invested in the above asset & the balance amount along with gains is expected to be received in tranches over the next two quarters.

The Fund is in advanced stages of documentation to exit in Grand Central Mall, Rajkot transaction. The Fund team has also stepped up its efforts to exit other remaining properties in this portfolio.

We thank you for your continued support.



Alok Aggarwal
Managing Partner & CEO – Real Estate

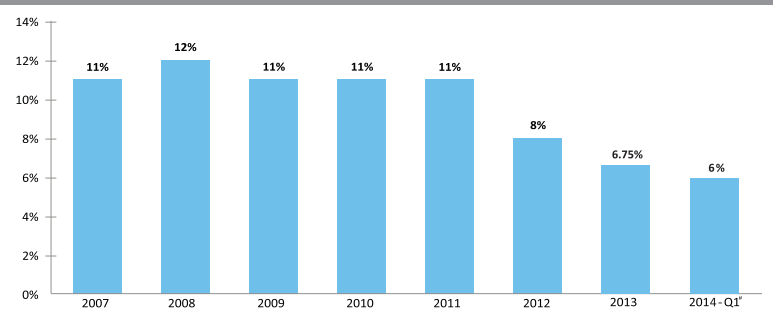
Fund Summary

Fund Status as on June 30, 2014

Fund Received	Rs. 516 Crores*
Final Closing Date	March 31st 2008
Term	4 years + 1 year + 1 year
No. of Investments	6
Committed Amount	Rs. 486.75 Crores
Capital Redeemed	Rs. 283.64 Crores (54.97%)
Income Generated (Pre-tax)	Rs. 270.12 Crores**
Total Exit Amount	Rs. 553.76 Crores

* Includes the corpus of co-investment vehicles
 ** Rs. 17.70 crores distributed to investors in first week of July 2014

Yield Distributed *



* Pre-Tax Annualised Yield distributed
 # Current year yield on quarterly payout basis

Investment Summary as on June 30, 2014

Project	Location	Investment Date	Investment Commitment (Rs. In Cr)	Asset Class	Key Tenants	
Exited						
a	Raheja Titanium	Mumbai	Dec-08	46.00	Commercial	Baroda Pioneer, BT Global
b	The Cerebrum B2	Pune	Mar-08	128.00	IT/ITeS	Standard Chartered Bank, Redknee India, Vodafone, Fiserv, Reliance Communications
c	ACORN Warehouse	Bhiwandi (Mumbai Metropolitan Region)	Jan-08	130.00	Integrated Logistic Park	TESCO, Flipkart, Uniworld Logistics, Damco
Under advanced stages of Documentation						
a	Grand Central Mall	Rajkot	Nov-07	47.00	Retail	Westside, Cinemax, Levis, Benetton, Giny-n-Jony
Negotiation stage						
a	Millennium Tower - 1	Kolkata	Mar-08	57.00	IT Park	IBM
b	ACORN Warehouse	Dharuhera (National Capital Region)	Jun-08	78.75	Integrated Logistic Park	TCI India, OEC Records, Amtec Auto, Transystem Logistics
			Total	486.75		

Exit Details

Property Name	Location	Asset Class	Investment Multiple**
Raheja Titanium	Mumbai	Commercial	1.3x
The Cerebrum B2*	Pune	IT/ITeS	1.5x
Acorn Warehouses##	Bhiwandi	Integrated Logistic Park	1.3x

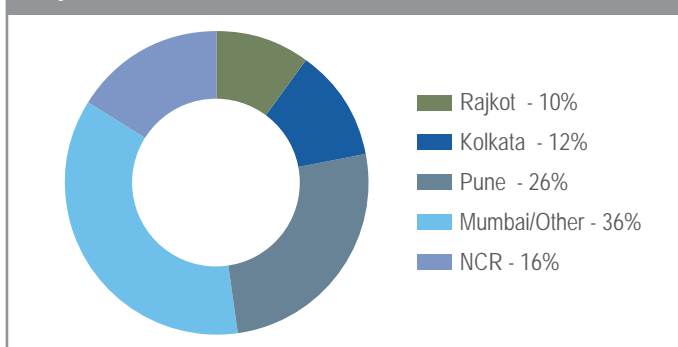
* IL&FS Milestone Fund I has made full exit from the investment and as per the agreed terms, partial debentures amount of Rs. 8.14crores have been withheld and will be paid on successful completion of conditions as per the sale agreement. On receipt of the balance proceeds of Rs 8.14 crores (Rs. 7.5 crores likely by end of Q1 FY-15), the same shall be distributed to the investors

** Pre -tax post expenses including rental income

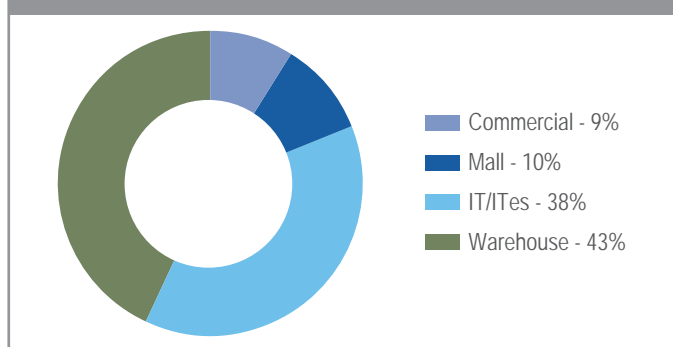
IL&FS Milestone Fund I has entered into a Share Purchase Agreement for exiting this investment and as per the agreed terms, partial debentures amount of Rs 25 Crores & gains of Rs 13 Crs are linked to achieving certain time-linked milestones and the same are expected to be received in tranches over the next two quarters. On receipt of the balance proceeds of Rs 38 Crores, the same shall be distributed to the investors.

Fund Allocation

City-Wise Distribution (In Rs.)



Sector Wise Distribution (In Rs.)



IL&FS-Milestone Fund - I – Project Snapshots



Project : Millennium Tower - 1
Location : Kolkata, West Bengal

Asset Class	IT Park
Investment Commitment	Rs. 57 Crores
Date of Initial Investment	March-2008
Total Leasable Area	94,624 sq ft
Key Tenants	IBM

Transaction Overview and Investment Rationale

Millennium Park is a Grade-A commercial space located in Salt Lake, Kolkata one of the fastest growing software technology hubs in India. The property is entirely occupied by IBM India, a reputed multinational technology firm. The Fund is actively pursuing divestment from this asset.

Fund team is negotiating with IBM on the lease rental & to extend the lease tenure by 5 years. Simultaneously, it is also negotiating an exit term sheet with a HNI Family Office to sell 100% interest in this asset.



Project : Grand Central Mall
Location : Rajkot, Gujarat

Asset Class	Retail
Investment Commitment	Rs. 47 Crores
Date of Initial Investment	November-2007
Total Leasable Area	165,085 sq ft
Key Tenant(s)	Westside, Cinemax, Levis, Benetton, Giny-n-Jony

Transaction Overview and Investment Rationale

Grand Central Mall is one of the largest malls of Saurashtra and Kutch with over 150,000 sq ft of retail space. The project is located on Nana Mawa Road in Rajkot and is well highlighted on the road side. Anchor tenants include Cinemax, one of the largest theatre chains in India and Westside, one of India's largest and fastest growing departmental store chains. Other tenants include United Colors of Benetton, Bata, Biba etc..

The Fund is in advanced stage of documentation for exit with a prospective buyer. The fund is likely to receive substantial part of the exit consideration from exit during the quarter ending 30th September 2014 and the balance during the quarter ending 31st December 2014.



Project : ACORN Warehouse
Location : Dharuhera, National Capital Region

Asset Class	Integrated Logistic Park
Investment Commitment	Rs. 78.75 Crores
Date of Initial Investment	June-2008
Total Leasable Area	550,000 sq ft
Key Tenant(s)	TCI India, OEC Record, Amtech Auto, Transystem Logistics

Transaction Overview and Investment Rationale

The Fund invested in a warehousing facility in Dharuhera in the National Capital Region. Couple of tenant (Uniworld & HTSI) occupying 139,340 sq ft have moved out from the warehouse. The fund is actively looking for new tenants to fill up the vacancy. The rentals in the micro-market have stabilized. Rentals are now averaging Rs. 15 per sq ft per month on the leased area.

The Fund has been actively marketing this asset to a number of prospective buyers. However the fund is in initial discussions for exit with a couple of investors. Given the continuous slowdown in the logistics park/warehousing space especially given the supply glut in the micro markets of Dharuhera-Bhiwandi belt; the challenge is to protect the value of fund's investment as the rental outlook has worsened since the Global Financial Crisis.

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602, Hallmark Business Plaza, Sant Dnyaneshwar Marg, Opp. Guru Nanak Hospital,
Bandra (East), Mumbai - 400051. India.

email: milestone@camsonline.com, info@www.ilfsmilestone.com, website: www.ilfsmilestone.com