

A Yield Driven Real Estate Fund

January - March 2014

Dear Investors

We are pleased to present the Fund Update for the quarter ending March 31st 2014 for the IL&FS Milestone Fund I (Fund). The fund life has been extended by a period of one year i.e. till 31st March 2015.

India's GDP expanded by 4.7% in the October–December 2013 period, compared to 4.8% in the preceding quarter, thereby lowering hopes of a strong economic recovery in 2013–14. Negative growth in the manufacturing sector (-1.9%), a slowdown in the key infrastructure sector (1.6% growth during January 2014), along with high inflation, kept the growth rate below expectations during the review period. In the absence of any pick-ups in the manufacturing sector, government estimates project the economy to grow at a little less than 5% in 2013–14.

In an attempt to curb inflation, the Reserve Bank of India (RBI), in its monetary policy review in January 2014, increased the key lending rates by 25 basis points. Although this is the third instance (since September 2013) of the RBI increasing key lending rates, it has clarified that if CPI inflation eases in the coming months, it does not foresee any further rate hikes in the near term. RBI has kept the rates unchanged in its first bi-monthly monetary policy review in early April 2014.

The Interim Budget 2014–15 presented in February 2014 made all the right moves for the requisite push in the sectors of infrastructure, manufacturing, and affordable housing. The focus on affordable housing is expected to accelerate growth of construction activity in tier II and III cities; while the focus on channelizing investments (mobilized through the public-private partnership mode) into infrastructure development should augur well for the infrastructure and real estate sectors, going forward. The realty sector's growth trajectory in the short to medium term will depend to a large extent on the emergence of a reform-oriented and forward looking political dispensation from the forthcoming electoral mandate.

The commercial real estate market in India witnessed sluggish activity and low level of new completions in the first quarter of 2014. Leading cities across the country continued to see heightened caution from corporate occupiers, resulting in subdued leasing activity during the first three months of the year. Occupier focus remained on improving existing space utilization and/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, financial and services segments continued to drive demand for office space in India's leading cities.

Office space demand slowed down significantly in the first quarter, with around 6.3 million sq. ft. (6.6 million sq. ft. for Q1 CY13) of office space getting absorbed across the leading cities of the country. Transaction activity was dominated by the National Capital Region (NCR), Bangalore and Chennai—representing about 70% of the total space transacted during the quarter under review. SEZ developments in Gurgaon, Bangalore, Hyderabad and Pune also witnessed considerable traction during Q1 2014.

Existing vacancy levels and lower demand resulted in a decline in supply addition across most leading cities in the country. About 6.6 million sq. ft. of office space was completed in the first quarter of 2014, which is a decline of about 10% on a q-o-q basis.

Bangalore led project completions, followed by Delhi NCR and Mumbai—together contributing to more than 80% of the total supply completed in the present quarter.

Rental trends exhibited mixed sentiments across micro-markets in the quarter under review. Rental values in the Central Business Districts (CBDs) of Delhi, Bangalore, Chennai and Pune appreciated in the range of 2–5% due to increasing occupier interest in leading Grade A properties. In Mumbai, meanwhile, feeble demand levels continued to have a negative impact on rentals across markets, with values dipping by 2–5% in Nariman Point, Bandra–Kundra Complex (BKC), Worli and Prabhadevi—mainly due to weak occupier demand and existing vacancy pressures.

Occupiers are likely to remain focused on optimal space utilization and cost saving strategies. Going forward, demand is likely to be concentrated mostly in the peripheral micro-markets of leading cities, owing to abundant availability of cost effective quality space (Grade A) options. Firms in the IT/ITeS, financial and pharmaceutical sectors are expected to remain major contributors to overall office space absorption across major cities. However, significant supply expected to reach completion in the coming months is likely to push up vacancy levels, keeping rental values range bound. (Source – CBRE India)

IL&FS Milestone Fund-I is fully committed and invested across 6 investments (of which 2 exited) in the commercial, retail, warehousing and the IT Park space across India. During the previous quarter, the fund has divested its commercial asset in Pune (Cerebrum B2) at an investment IRR of 14.5% (pre-tax).

The Fund is in advanced stages of documentation to exit in Bhiwandi Warehouse transaction and the due diligence process is at final stage in case of GCM Rajkot. 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

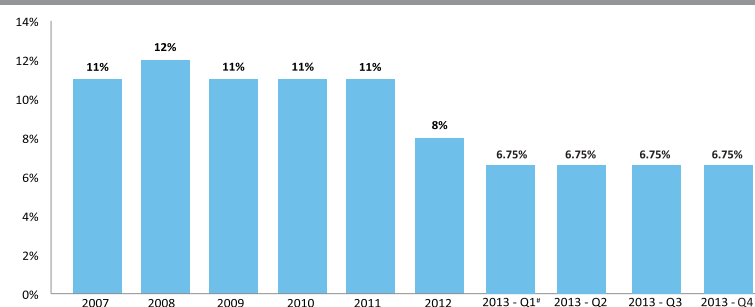
Fund Summary

Fund Status as on March 31, 2014

Total Corpus	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 Divested	Rs. 158.74 Crores (30.76%)
Income Generated (Pre-tax)	Rs. 264.84 Crores
Total Exit Amount	Rs. 423.58 Crores

*Includes the corpus of co-investment vehicles

Yield Distributed *



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

Investment Summary as on March 31, 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
Under advanced stages of Documentation						
a	Grand Central Mall	Rajkot	Nov-07	47.00	Retail	Westside, Cinemax, Levis, Benetton, Giny-n-Jony
b	ACORN Warehouse	Bhiwandi (Mumbai Metropolitan Region)	Jan-08	130.00	Integrated Logistic Park	TESCO, Flipkart, Uniworld Logistics, Damco
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

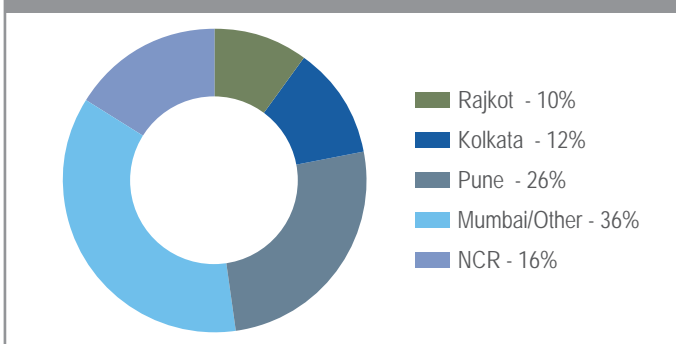
Property Name	Location	Asset Class	Investment Multiple**
Raheja Titanium	Mumbai	Commercial	1.3x
The Cerebrum B2*	Pune	IT/ITeS	1.5x

* L&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

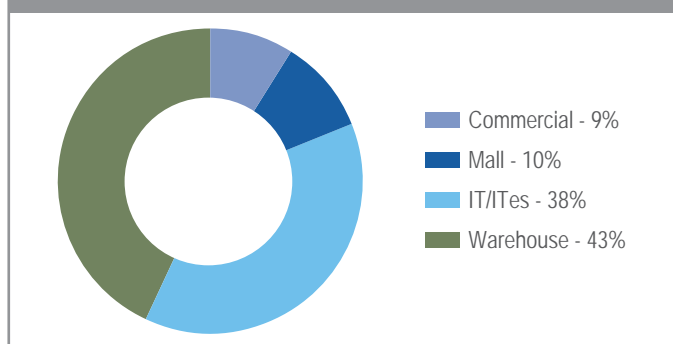
** Pre-tax post expenses including rental income

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 has been able to negotiate & extend the lease tenure by 5 years. Simultaneously it is negotiating an exit term sheet with a HNI Family Office



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 has entered into MOU with a buyer and due diligence process is ongoing. The fund is likely to exit from this asset by September 2014.



Project : ACORN Warehouse
Location : Bhiwandi, Mumbai Metropolitan Region

Asset Class	Integrated Logistic Park
Investment Commitment	Rs. 130 Crores
Date of Initial Investment	January-2008
Total Leasable Area	990,000 sq ft
Key Tenant(s)	TESCO, Flipkart, Uniworld Logistics & a few 3 PL companies

Transaction Overview and Investment Rationale

The Fund invested in a warehousing facility in Bhiwandi, on the outskirts of Mumbai. Bhiwandi has been a front runner among all potential destinations due to its close proximity to Mumbai, India's commercial and financial hub. The fund is making efforts to lease 390,000 sq ft of vacant space & has been able to sign leases for 62,500 sq ft during the quarter ending 31st March 14

The Fund has entered into MOU with a buyer and due diligence process is completed. The fund is finalizing the definitive agreements with the buyer. The exit from this transaction is expected to get completed by November 2014.

IL&FS-Milestone Fund - I – Project Snapshots



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. Two of the tenants (Uniworld & HTSI) lock-ins are coming to an end & they have decided to move 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 and we are in initial but active discussions with two prospective investors. Given the continuous slowdown in the logistics park/warehousing space, 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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