

## A Yield Driven Real Estate Fund

July - September 2014

Dear Investors

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

The sentiments around Indian economic environment have improved significantly post the general elections which concluded in the last quarter. Indian equity markets have since been on a bull run with strong inflows coming from foreign investors as they bet on the stability and efficiency of the newly formed government. During Q1 FY15, GDP grew at 5.7%, highest in the last two years.

Positive market sentiments and a gradual global as well as domestic macro-economic recovery may finally be signaling the beginning of a revival in India's corporate real estate segment. Office space absorption rose 31% in the country's seven major cities (Delhi-NCR, Mumbai, Kolkata, Chennai, Bangalore, Hyderabad and Pune) during the July-September period. Absorption of office space stood at about 8 million sq ft on higher demand from corporates looking for expansion as against to 6 million sq ft during the same period last year. (Source CBRE India)

Rental values for commercial office space remained stable for the most part across cities such as Delhi NCR, Bangalore, Pune and Kolkata; while appreciating across select micro-markets of Chennai and Hyderabad. Sustained occupier interest in prominent SEZ developments of Chennai led to rental rates rising in the range of 12-15% during the quarter. Similar demand trends also led to rental appreciation in select developments along the IT corridor in Hyderabad. (Source CBRE India)

However, subdued demand and existing vacancy pressures caused values to dip by 2-3% q-o-q in Mumbai's Nariman Point and Bandra-Kundra Complex. In NCR, the rentals maintained their equilibrium over the previous quarters in most prominent office developments in the Central Business District (CBD) of Connaught Place. Similar trends were noticed across commercial office as well as IT/SEZ segments of Gurgaon and Noida – (Source CBRE India)

IL&FS Milestone Fund-I is fully committed and invested across 6 investments (of which 4 exited - 3 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 retail mall asset (Grand Central Mall - Rajkot) at realised IRR of 9.7% (pre-tax).

The Fund is in initial stages of discussions to exit the Millennium Tower -1 property in Kolkata and Acorn warehouse in Dharuhera.

We take this opportunity to wish you & your families a very Happy Diwali.

We thank you for your continued support.

Regards



Alok Aggarwal  
Managing Partner & CEO – Real Estate

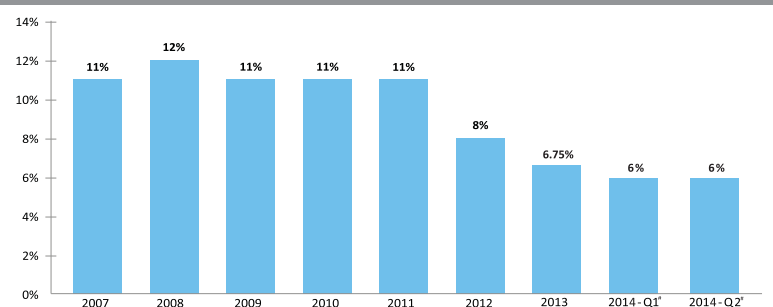
# Fund Summary

## Fund Status as on September 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. 327.52 Crores (63.47%)
Income Generated (Pre-tax)	Rs. 273.51 Crores
Total Exit Amount	Rs. 601.03 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 September 30, 2014

Project	Location	Investment Date	Investment Commitment (Rs. In Cr)	Asset Class	Key Tenants	
<b>Exited (Full)</b>						
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	Grand Central Mall	Rajkot	Nov-07	47.00	Retail	Westside, Cinemax, Levis, Benetton, Giny-n-Jony
<b>Exited (Partial)</b>						
a	ACORN Warehouse	Bhiwandi (Mumbai Metropolitan Region)	Jan-08	130.00	Integrated Logistic Park	TESCO, Flipkart, Uniworld Logistics, Damco
<b>Negotiation stage</b>						
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
			<b>Total</b>	<b>486.75</b>		

## 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
Grand Central Mall##	Rajkot	Retail	1.4x

\* Pre-tax post expenses including rental income

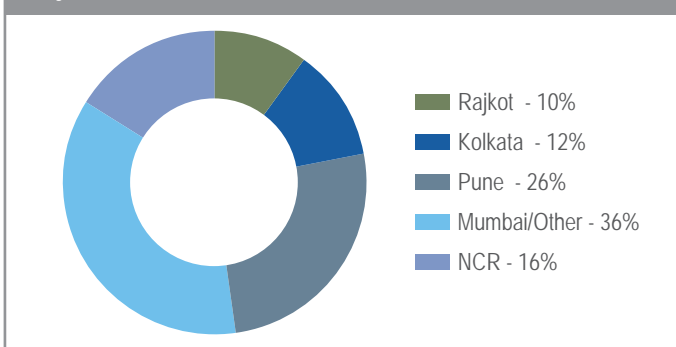
\*\* IL&FS Milestone Fund I has made full exit from the investment and as per the agreed terms, partial debentures amount of Rs. 8.14 crores have been withheld and will be paid on successful completion of conditions as per the sale agreement. On receipt of the balance proceeds of Rs 8.14 crores (Rs. 7.5 crores likely by end of Q3 FY-15), the same shall be distributed to the investors.

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

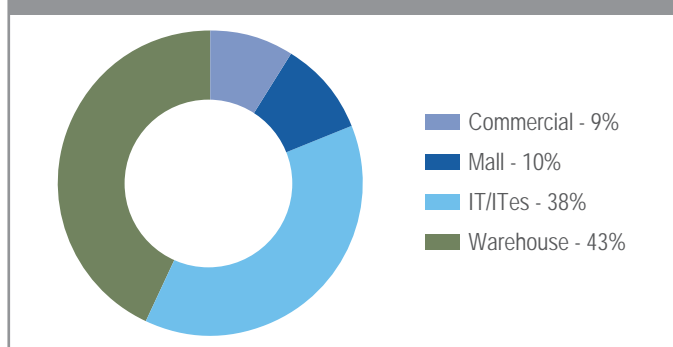
## IL&FS Milestone Fund I has entered into a Share Purchase Agreement ("SPA") for exiting this investment and as per the agreed terms, amount received from the Buyer is Rs 48.51 Crores (after working capital adjustments at portfolio company). Of the realized amount of Rs 48.51 Crores, Rs 42 Crores have been distributed to the investors during the quarter and balance amount of Rs 6.51 Crores has been retained by the Fund towards contingency (incl. tax contingency).

# 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 finalized with IBM on the lease rental of Rs. 51.20 per sq ft & fresh lease tenure of 3 years with an optional 2 years extension. Simultaneously, it is also looking to exit from the asset and in discussions with a couple of prospective buyer.



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. A few tenant (Uniworld, HTSI & Brattle Foods) occupying 151,340 sq ft have vacated the warehouse due to business constraints. The fund is actively looking for new tenants to fill up the vacancy. The rentals in the micro-market are under pressure due to over supply situation. Rentals are now averaging Rs. 14 per sq ft per month on the leased area.

The Fund has been actively marketing this asset to a number of prospective buyers. Given the continuous slowdown in the logistics park/warehousing space; the challenge is to protect the value of fund's investment as the rentals have been under pressure since last few quarters.

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