

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 II (Fund).

IL&FS Milestone Fund II is fully committed and invested across 6 investments in the commercial and the IT Park space across India. The fund team has been able to successfully lease around 16,000 sq ft of space in 247 Park, 19,000 sq ft in DTC Pune and 5,000 sq ft in E City Bengaluru in quarter ended 30th June 14.

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)

The Fund is actively pursuing the exit process for a number of its investments which includes 247Park in Mumbai.

We thank you for your continued support.



Alok Aggarwal

Managing Partner & CEO – Real Estate

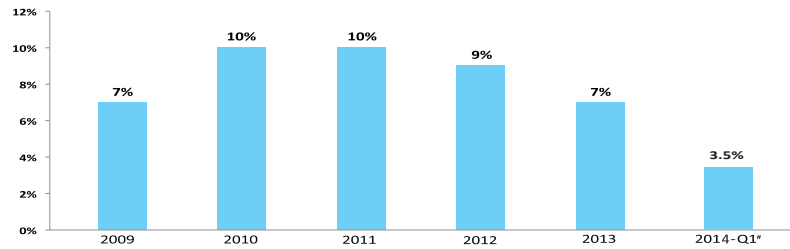
Fund Summary

Fund Status as on June 30, 2014

Fund Received	Rs. 570 Crores*
Final Closing Date	II & IIA - 31st March 2010 IIB - 30th November 2010
Term	4 years + 1 year + 1 year
No. of Investments	6
Committed Amount	Rs. 488.30 Crores
Income Generated (Pre-tax)	Rs. 192.50 Crores
Income Distributed	Rs. 192.50 Crores (33.77%)

* 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 June 30, 2014

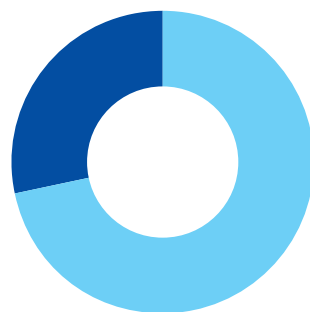
Project	Location	Initial Investment Date	Investment Commitment (Rs. In Cr)	Asset Class	Key Tenants
Universal Business Park	Andheri (E), Mumbai	Apr-10	23.80	Commercial	Vacant
E-City Park - II	Electronic City (Phase I),	Apr-10	60.30	IT/ITeS	CGI
247Park	Vikhroli (W), Mumbai	Jul-10	142.00	Commercial	Future Group, HCC, Siemens, TCSE
Patel Corporate Park	Jogeshwari (W), Mumbai	Mar-11	97.00	Commercial	Pfizer
E-City Park - II	Electronic City (Phase I), Bengaluru	Mar-12	69.20	IT/ITeS	Terex, RedPrairie, Defiance, Golive Media, Mayfair, British Engines, Sigma
Down Town Center	Erandwane, Pune	April-13	96.00	IT/ITeS	Vacant from 1st Feb 2014
Total			488.30		

City-Wise Distribution (In Rs.)



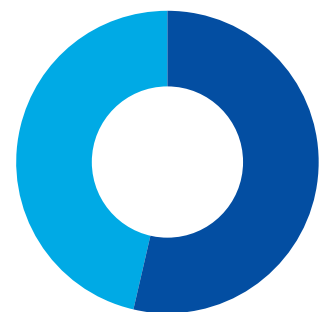
■ Mumbai Metropolitan Region - 53.80%
■ Bengaluru - 26.50%
■ Pune - 19.70%

Sector Wise Distribution (In sq ft)



■ Commercial - 71.91%
■ IT/ITes - 28.09%

Sector Wise Distribution (In Rs.)



■ Commercial - 53.80%
■ IT/ITes - 46.20%

IL&FS-Milestone Fund - II – Project Snapshots



Project : Universal Business Park
Location: Andheri (E), Mumbai

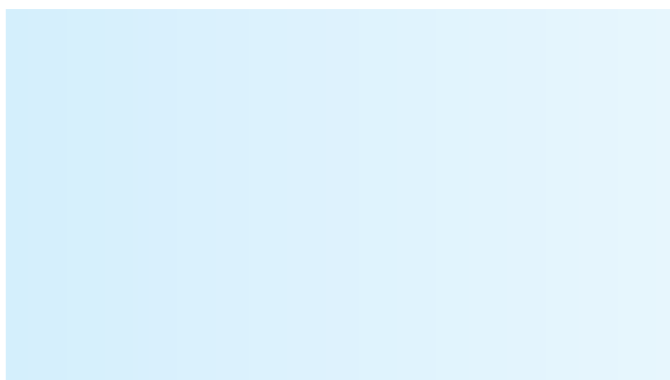
Asset Class	Commercial
Investment Commitment	Rs. 23.80 Crores*
Date of Initial Investment	April -2010
Total Leasable Area	19,953 sq ft (5th floor)
Key Tenant(s)	Vacant

*Fund owns 84.08% stake in the SPV.

Transaction Overview and Investment Rationale

Universal Corporate Park is located in Mumbai in Andheri (E), a predominantly commercial area with diamond exporting units, IT/ITeS companies (in SEEPZ), TV/film studios and many small/medium enterprises. The international airport is also located in this area. The fund has invested in the 5th floor of the property. Like most of other office locations in Mumbai, this particular micro market is witnessing significant slow-down in leasing. With rising vacancy levels, there is serious downward pressure on the rentals.

Currently the premises is vacant. However, given the improved visibility of this micro market as the Metro has become operational and the team has intensified its efforts to lease the property or sell it to an end user.



Project : E-City Park - II
Location: Electronic City (Phase I), Bengaluru

Asset Class	IT/ITeS
Investment Commitment	Rs. 60.30 Crores
Date of Initial Investment	April-2010
Total Leasable Area	189,161 sq ft
Key Tenant(s)	CGI

Project : E-City Park - II
Location: Electronic City (Phase I), Bengaluru

Asset Class	IT/ITeS
Investment Commitment	Rs. 69.20 Crores
Date of Initial Investment	March-2012
Total Leasable Area	158,000 sq ft
Key Tenant(s)	Terex, RedPrairie, Defiance, British Engines, Mayfair Sigma, Air Push India Pvt. Ltd.

Transaction Overview and Investment Rationale

E-City Park-II is located in Electronic City (Phase I), a major IT corridor which houses campuses of IT conglomerates such as Infosys and Wipro. The location provides international quality infrastructure comprising roads, security, power and water supply. The Fund had initially invested in 4 floors of the building amounting to 189,161 sq ft in April 2010. All 4 floors are leased out to CGI, one of the largest IT and business process services company in the world.

The entire building is owned by the Fund. The property is leased to the extent of 90%. The Fund has been able to lease an additional space of around 5,000 sq ft to Air Push, one of the existing tenants. Also other leasing leads are being evaluated for the balance vacant area of around 32,000 sq ft. The target is to achieve 100% occupancy in the next 6 months

IL&FS-Milestone Fund - II – Project Snapshots



Project : 247Park
Location: Vikhroli (W), Mumbai

Asset Class	Commercial
Investment Commitment	Rs. 142 Crores
Date of Initial Investment	July-2010
Total Leasable Area	1,117,732 sq ft
Key Tenant(s)	Future Group, Siemens, HCC, TCSE, DHL, Lemiur, Atos

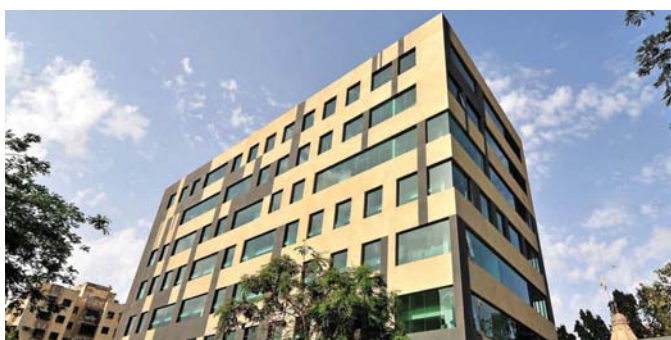
*Fund owns 36.88% stake in the SPV.

Transaction Overview and Investment Rationale

247Park was developed by HCC Real Estate, a subsidiary of Hindustan Construction Company, one of India's leading construction and infrastructure companies. The IT Park is one of the best in terms of efficiency, design, facilities and amenities in the suburban micro-markets of Mumbai. The project is located on L.B.S. Marg, situated in Vikhroli (W) which was once a manufacturing hub, but has now turned into a base for IT/ITeS companies due to availability of large floor space. The property is leased out to prominent tenants like Future Group, Siemens, HCC, DHL, Nair & Co etc.

During the quarter the fund has leased around 16,000 sq ft of space to Vuclip at a monthly rent of Rs 90 psf. The Fund is trying to lease out the vacant space of 106,000 sq ft and negotiating with several prospective occupiers and aims to achieve above 95% occupancy. However the cash yield is unlikely to improved given that the repayment of the existing loan from SBI will increase from Rs 30 Crores (in FY14) to Rs 45 Crores in FY15.

The fund is in active discussion with an institutional investor for exit.



Project : Patel Corporate Park
Location: Jogeshwari (W), Mumbai

Asset Class	Commercial
Investment Commitment	Rs. 97.00 Crores
Date of Initial Investment	March-2011
Total Leasable Area	66,000 sq ft
Key Tenant(s)	Pfizer

Transaction Overview and Investment Rationale

Patel Corporate Park is a premium commercial space located on Patel Estate Road in Jogeshwari (W), Mumbai. Commercial office spaces have grown rapidly in this region led by the services sector. The entire building is leased out to Pfizer, one of the largest research based pharmaceutical companies in the world. This building is unique as it offers it's tenants clear floor plates and clear frontage.

The Fund is evaluating the exit from the asset and has done several site visits with prospective buyers. However, it is yet to receive any attractive valuation from the prospective buyers.

IL&FS-Milestone Fund - II – Project Snapshots



Project : Down Town Center (DTC)
Location: Erandwane, Pune

Asset Class	IT/ITeS
Investment Commitment	Rs. 96.00 Crores
Date of Initial Investment	April-2013
Total Leasable Area	123,000 sq ft
Key Tenant(s)	Vacant

Transaction Overview and Investment Rationale

DTC is part of a 360,000 sq ft mixed use development located in heart of Pune city. The office space of 123, 000 sq. ft. has been vacated by the tenant from 1st Feb 2014. The Fund team is actively pursuing with various intermediaries to lease out the vacant space and has been able to get active interest from 3 prospective investors. The entire 6th, 7th & 8th floors alongwith covered car parking spaces of 201 nos. is part of the property owned.

During the quarter the fund has leased around 19,000 sq ft of space to Global Sourcing Group (GSG) at a monthly rent of Rs 52 psf .The Fund is trying to lease out the vacant space of 104,000 sq ft and negotiating with several prospective occupiers.

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