

A Yield Driven Real Estate Fund

April - June 2015

IL&FS-Milestone Fund - II

Dear Investors

We are pleased to present the Fund Update for the period ending June 30th 2015 for the IL&FS Milestone Fund II (Fund).

Indian economy has witnessed a gradual recovery over the past quarters as the government is focusing on implementing investment friendly policies to boost the recovery. The gross domestic product (GDP) expanded by 7.3% in FY 2015, marginally higher than the 6.9% recorded in the previous fiscal year. With inflation under control, the Reserve Bank of India (RBI) reduced the repo rate by 25 bps (for the third time since January) to 7.25% in June 2015. Signs of recovery were also visible in the commercial real estate market. (Source – CBRE India)

Office space absorption picked up in second quarter of the year with more than 8 million sq. ft. of absorption across seven major cities – an increase of 70% quarter-on-quarter (q-o-q). However, the total office space absorption for the January – June period stood at approximately 13 million sq. ft., a decline of 12% when compared to H1 2014. Transaction activity was mostly led by office leasing in Bangalore (28%), Delhi NCR (23%) and Mumbai (20%); while smaller cities such as Chennai and Pune contributed around 25% in their transaction market shares. (Source – CBRE India)

In the Delhi-NCR region, Gurgaon accounted for 73% of total office space demand with E-commerce companies constituting about 30% of this demand. Much of this demand was in the peripheral regions of Gurgaon such as DLF Cyber City, Sohna Road and Golf Course Road. Similar trend was also visible in Mumbai-MMR region. Nearly 50% of the total office space demand came from peripheral markets with Banking/Financial Services sector constituting 31% of the total demand. While the central business district of Nariman Point, Fort and Cuffe Parade saw contraction in capital values, alternate business district of Bandra Kurla Complex and Kurla(w) saw marginal increases in the same. (Source – CBRE India)

In Bangalore, the Sarjapur -Outer Ring Road (ORR) and North Bangalore dominated the transaction activity accounting for approx 76% of the total absorption with IT/ITeS sector driving much about 36% this demand. Similarly in Pune, IT/ITeS sector dominated the leasing activity at a 30% share in overall office space demand. Much of the transaction activity in Pune was concentrated in peripheral business district of Hinjewadi, Kharadi, Hadapsar and Talawade. (Source – CBRE India)

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 has successfully exited from its investment in Vikhroli Corporate Park Private Limited (VCPPL) which owns 247Park Building at Vikhroli, Mumbai. This is one of the largest exits done by a private equity fund in Commercial Real Estate Market in India. The exit proceeds of this divestment have also been distributed to the investors. Additionally, the fund team has also signed a term sheet for part sale of Universal Business Park, Mumbai.

On the leasing front, the fund team has recently signed an LOI for leasing 5,500 sq ft area in E-City, Bangalore and a lease agreement for 42,000 sq ft area in Down Town Center, Pune.

The fund team is focusing on both leasing and exiting from the remaining five investments.

We thank you for your continued support.

Regards



Sandeep Chadha

Senior Principal – Real Estate Investments

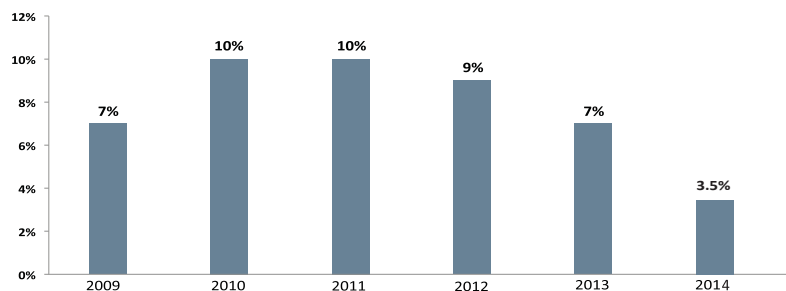
Fund Summary

Fund Status as on June 30, 2015

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
Capital Redeemed*	Rs. 210.81 Crores
Income Generated (Pre-tax)	Rs. 331.35 Crores
Total Exit Amount	Rs. 542.16 Crores (95.12%)
Outstanding Capital	Rs. 359.19 Crores
Outstanding Capital Commitment	Rs. 346.30 Crores

*Includes the distribution made in July 2015 for 247Park exit

Yield Distributed*



* Pre-Tax Annualised Yield distributed

Investment Summary as on June 30, 2015

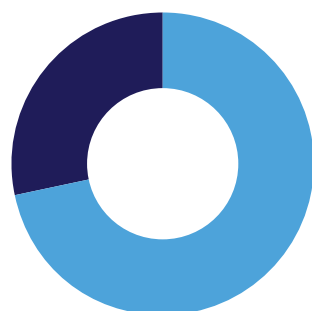
Project	Location	Investment Date	Investment Commitment (Rs. In Cr)	Asset Class	Key Tenants
Exited					
247Park	Vikhroli (W), Mumbai	Jul-10	142.00	Commercial	Future Group, HCC, Siemens, DHL, TAM Media
Active Investments					
Universal Business Park	Andheri (E), Mumbai	Apr-10	23.80	Commercial	Vacant
E-City Park - II	Electronic City (Phase I),	Apr-10	60.30	IT/ITeS	CGI
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, Defiance, Airpush, Mayfair, British Engines, Sigma
Down Town Center	Erandwane, Pune	April-13	96.00	IT/ITeS	GSG Telecom, Walter Moore, Acellere
Total (Active Investments)			346.30		

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

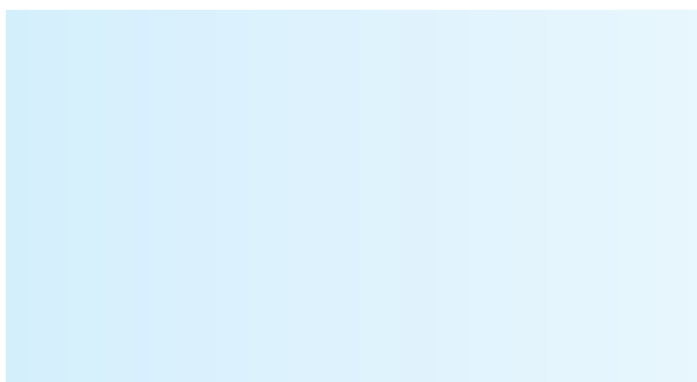
Asset Class	Commercial
Investment Commitment	Rs. 23.80 Crores*
Date of Initial Investment	April -2010
Total Leasable Area	19,953 sq ft (5th floor)
Key Tenant(s)	Vacant

*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. This particular micro-market in Mumbai has been witnessing significant slow-down in leasing activity.

The property is currently vacant. The Fund team is exploring various options to sell the property including unit sales and has intensified its efforts to exit from this property. The team has already signed a term sheet for part sale of the property for which the due diligence is underway and expects to conclude this exit by October 2015.



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, Defiance, Airpush, Mayfair, Sigma, British Engines

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 Fund has made an additional investment in E-City Park-II for 5th to 8th floor amounting to 156,496 sq ft area in March 2012. With this acquisition, the entire building is owned by the Fund.

The property is currently ~95% leased. In the previous quarter, the fund team has signed an LOI for leasing additional 5,500 sq ft. A few other leasing leads are also being evaluated for leasing out the vacant area of around 13,500 sq ft. The Fund is in discussions with a couple of potential buyers for exiting from the property.

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, TAM Media, DHL

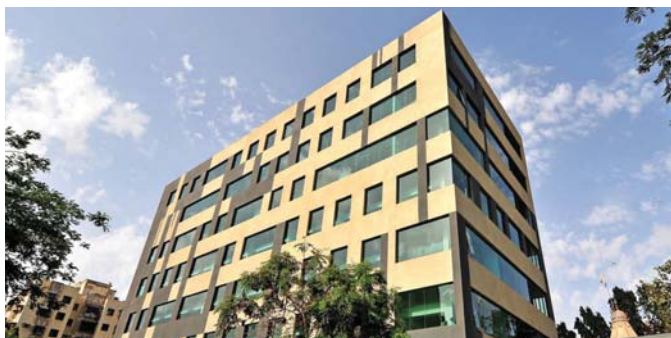
*Fund owns 36.88% stake in the SPV.

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 development is a Gold rated green building. It 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, Tam Media etc.

The fund has successfully exited from its investment in Vikhroli Corporate Park Private Limited (VCPPL) which owns 247Park Building at Vikhroli Mumbai by selling the Fund's stake in VCPPL to one of India's largest foreign institutional investors. The proceeds from this exit have already been distributed.

The final exit value for Shareholders (including co-investors and the Fund) in VCPPL after adjusting for third party debt and working capital is Rs 693 Crores. The Fund's share of this exit proceed is Rs 366 Crores. Additionally, as per the terms of the Sale Agreement, there is a performance linked payout which will be paid by the Buyers on achieving certain milestones in a defined time period, which will distributed to the Investors as and when it is received.



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 its tenants clear floor plates and clear frontage.

Pfizer has served a notice of vacation and is expected to vacate the property by 31st August. The fund team is already in discussions with a few potential tenants to fill the imminent vacancy. Simultaneously the team is also evaluating options for exiting from the property.

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)	GSG Telecom, Walter Moore, Acellere

Transaction Overview and Investment Rationale

DTC is part of a 360,000 sq. ft. mixed use development located in heart of Pune city. Of the total leasable area of approx 123,000 sq. ft., approx 53,000 sq. ft. has been leased to the tenants. Further, the fund team has also signed a lease agreement for about 42,000 sq. ft. of additional space on 8th floor with R Systems, taking the overall occupancy to ~76% for the property. A few other prospective tenants have also done site visits at the property and have shown interest in taking-up the space.

The Fund team is actively pursuing with various intermediaries including local brokers to lease out the vacant space in the property. The team is also evaluating various exit options including strata-sale to achieve an exit from the property while keeping the leasing efforts up to maximize the returns from the property.



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