

## 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 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 52,000 sq ft of space in 247 Park, and around 22,500 sq ft in DTC Pune in quarter ended 30th September 2014.

The sentiments around Indian economic environment have improved significantly post the general elections which concluded in the last quarter. Indian 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)

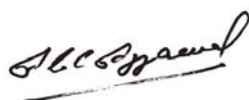
However, subdued demand and existing vacancy pressures caused values to dip by 2-3% q-o-q in Mumbai's Nariman Point and Bandra-Kundra Complex. In NCR, the rentals maintained their equilibrium over the previous quarters in most prominent office developments in the Central Business District (CBD) of Connaught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

The Fund is actively pursuing the exit process for a number of its investments and expects to divest atleast one by end of FY15.

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

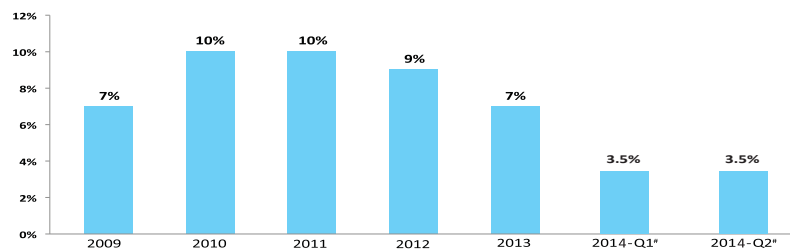
# Fund Summary

## Fund Status as on September 30, 2014

Fund Received	Rs. 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. 197.49 Crores
Income Distributed	Rs. 197.49 Crores (34.65%)

\* 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

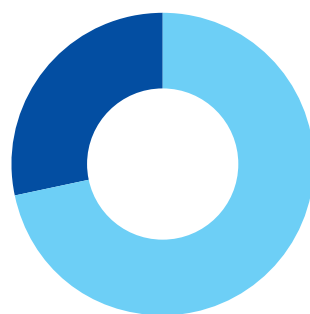
Project	Location	Initial Investment Date	Investment Commitment (Rs. In Cr)	Asset Class	Key Tenants
Universal Business Park	Andheri (E), Mumbai	Apr-10	23.80	Commercial	Vacant
E-City Park - II	Electronic City (Phase I),	Apr-10	60.30	IT/ITeS	CGI
247Park	Vikhroli (W), Mumbai	Jul-10	142.00	Commercial	Future 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	GSG Telecom, Walter Moore, Acellere
<b>Total</b>			<b>488.30</b>		

### City-Wise Distribution (In Rs.)



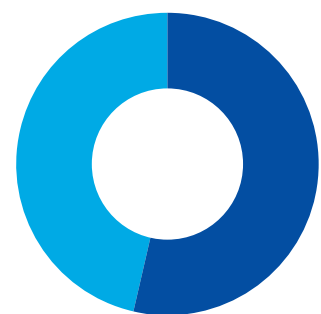
■ Mumbai Metropolitan Region - 53.80%  
■ Bengaluru - 26.50%  
■ Pune - 19.70%

### 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

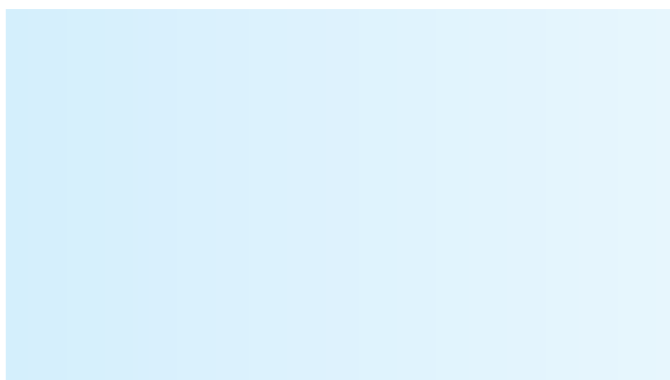
Asset Class	Commercial
Investment Commitment	Rs. 23.80 Crores*
Date of Initial Investment	April -2010
Total Leasable Area	19,953 sq ft (5th floor)
Key Tenant(s)	Vacant

\*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 Fund has made an additional investment in E-City Park-II for 5th to 8th floor. With this acquisition, the entire building is owned by the Fund. The property is leased to the extent of 91%. The Fund has been able to lease an additional space of around 5,000 sq ft to Air Push, one of the existing tenants. Leasing for additional space of around 12,000 sq ft is in final stages of discussions with another existing tenant. Also other leasing leads are being evaluated for the balance vacant area of around 32,000 sq ft. The fund is in talks with prospective buyers to exit this 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, TCSE, DHL, Lemiur, Atos

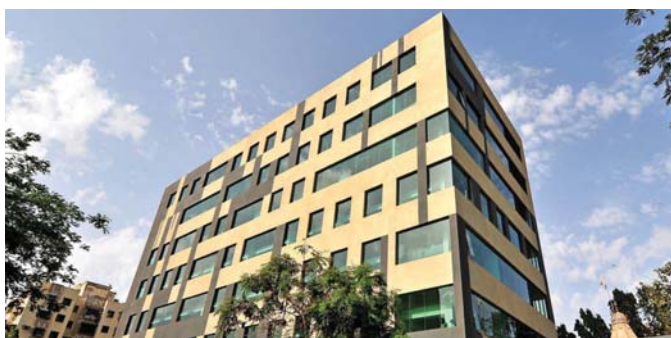
\*Fund owns 36.88% stake in the SPV.

### 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 52,000 sq ft of space to a large manufacturing company at a monthly rent of Rs 90 psf which makes the property 95% leased.

The fund has entered into a term sheet with a potential institutional buyer. The legal documentation is currently being negotiated with the buyer.



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.

The tenant may vacate the premises post expiry of the lock-in. The fund has been actively discussing the same with the tenant and it also intensified efforts to find a replacement in case there is a vacancy. 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)	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. The office space of 123,000 sq. ft. had been vacated by the original tenant of which around 42,500 sq. ft. (~34%) has been occupied by the new tenants. The Fund team is actively pursuing with various intermediaries to lease out the vacant space.

During the quarter the fund has leased around 12,457 sq ft of space to Acellere and 9,981 sq ft to Walter Moore at monthly rentals of Rs 56 psf and Rs 62.5 psf each. The Fund is trying to lease out the vacant space of around 81,500 sq ft and negotiating with several prospective occupiers. However, a leasing efforts could stretch for another 8-12 months.

Disclaimer: The contents of this bulletin are for information purposes only and should not be construed as advice, representation or warranties from the Fund. You are advised to carry out an independent inquiry, investigation / analysis before relying on the information provided herein. The Fund will not be liable for any loss or damage whatsoever, arising as a result of any person acting or refraining from acting in reliance on any information contained therein or anything stated or omitted to be stated herein or for any other reason whatsoever. The Fund accepts no liability for any errors, misprints, inaccuracies or omissions in this publication.