



A Yield Driven Real Estate Fund

July - September 2015

IL&FS-Milestone Fund - II

Dear Investors

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

Indian Gross Domestic Product (GDP) expanded by 7% in Apr-Jul'15 quarter as against 7.5% in Jan-Mar'15 period. The lower than expected growth figures were largely due to decline in growth of Agricultural and Manufacturing activities. However, in a positive move by the Reserve Bank of India (RBI) in its bi-monthly policy, it has cut the repo rate by 50 basis points taking it to a four year low of 6.75%. The move was primarily incited by a fall in retail inflation as well as by the delay in rate hike by the US Federal Reserve, thereby easing the risks of capital outflows. (Source – CBRE India)

Consistent demand for quality space led to perceptible strengthening of office space absorption across the leading cities in the July–September 2015 period. Robust demand resulted in more than 9 million sq. ft. of office leasing activity; clocking a growth of about 20% on an annual comparison and around 6% on a quarterly basis. This rise in absorption activity, primarily driven by corporate occupiers from sectors such as IT/ITES, banking and financial services, and e-commerce companies, reflected a sustained improvement in office space leasing sentiments across most cities. NCR led the transaction activity in previous quarter contributing 31% of the total space transacted in the country, followed by Bangalore at 22% and Chennai at 17%. Approximately 50% of the transacted space was contributed by commercial (Non-IT) developments whereas IT space constituted 34% share in it. (Source – CBRE India)

In Mumbai, strong leasing activity was observed in Andheri, Vile-Parle and Jogeshwari areas, where small to medium size office space transactions were led by infrastructure/real estate, banking/financial, engineering/manufacturing and media firms. In NCR region, Gurgaon continued to lead the office leasing activity with around 75% share. IT/ITeS companies contributed approx 45% of the transaction space in the region. However, the rental values have largely remained stable across the micro-markets. Bangalore witnessed marginal increase in the rental values in the last quarter with traction in leasing coming from Whitefield and Electronic City areas. These areas continue to attract multinational IT/ITeS companies which accounted for nearly 50% of the transactional activity in the City. A similar trend was observed in Pune with IT/ITeS sector constituting around 59% of the total transaction space with rentals remaining largely stable. (Source – CBRE India)

IL&FS Milestone Fund II is fully committed and invested across 6 investments (1 exited) in the commercial and the IT Park space across India.

In the last quarter, the Fund distributed exit proceeds from 247Park Exit which was one of the largest exits concluded by a private equity fund in Commercial Real Estate market in India. On the leasing front, the Fund team has managed to achieve 100% occupancy in E-City II, Bangalore and Down Town Center (DTC), Pune.

The fund team is actively pursuing the exit leads for the remaining five investments, and targeting to conclude them within the timelines of the extended fund life. However, depending upon the market scenario and buyers' interest in the investments, exits for a couple of investments may stretch by another quarter post March 2016.

We thank you for your continued support.

Regards

Sandeep Chadha

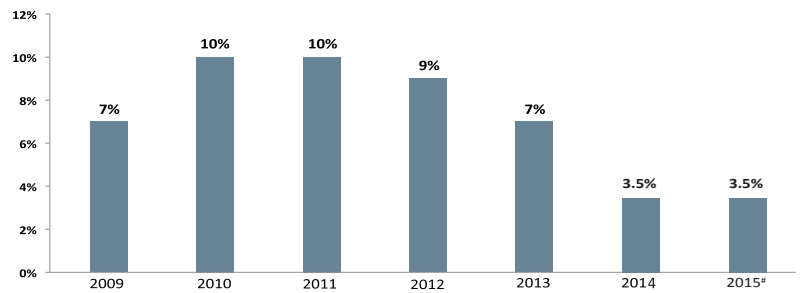
Senior Principal – Real Estate Investments

Fund Summary

Fund Status as on September 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. 334.49 Crores
Total Exit Amount	Rs. 545.31 Crores (95.67%)
Outstanding Capital	Rs. 359.19 Crores
Outstanding Capital Commitment	Rs. 346.30 Crores

Yield Distributed*



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

Investment Summary as on September 30, 2015

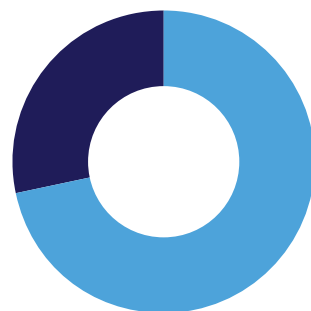
Project	Location	Investment Date	Investment Commitment (Rs. In Cr)	Asset Class	Key Tenants
Exited					
247Park	Vikhroli (W), Mumbai	Jul-10	142.00	Commercial	Future Group, HCC, Siemens, DHL, TAM Media
Active Investments					
Universal Business Park	Andheri (E), Mumbai	Apr-10	23.80	Commercial	Vacant
E-City 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, R Systems, Allygrow
Total (Active Investments)			346.30		

City-Wise Distribution (In Rs.)



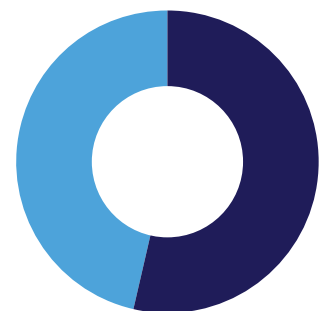
■ Mumbai Metropolitan Region - 53.80%
■ Bengaluru - 26.50%
■ Pune - 19.70%

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

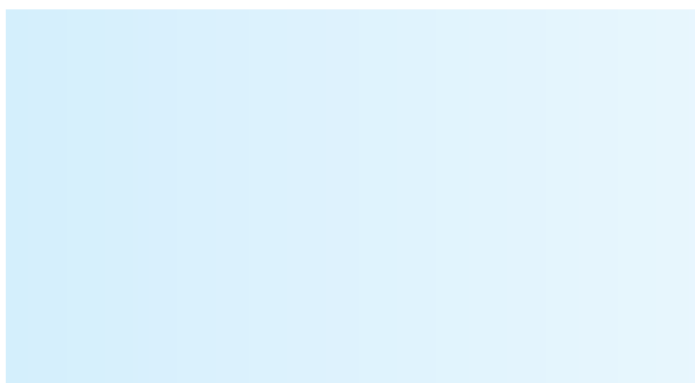
Asset Class	Commercial
Investment Commitment	Rs. 23.80 Crores*
Date of Initial Investment	April -2010
Total Leasable Area	19,953 sq ft (5th floor)
Key Tenant(s)	Vacant

*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 Fund team is in discussions with an HNI buyer who has completed the due-diligence process and is negotiating definitive agreements for buying the property. Due to the long standing vacancy and market slow-down in the area, the Fund team expects diminution of capital on this investment. However, the capital commitment in this property constitutes only about 4.2% of the total corpus and, hence the impact of this devaluation would be minimal on the overall performance of the investment portfolio. The team is targeting to exit from this investment by December 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 also 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.

In the previous quarter, the Fund team closed discussions with one of the existing tenants for leasing of the entire balance area of 18,009 sq ft and signed a Letter of Intent (LOI) for the same. With this lease the property is now 100% occupied. The Fund team has also initiated discussions with 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. 142.00 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

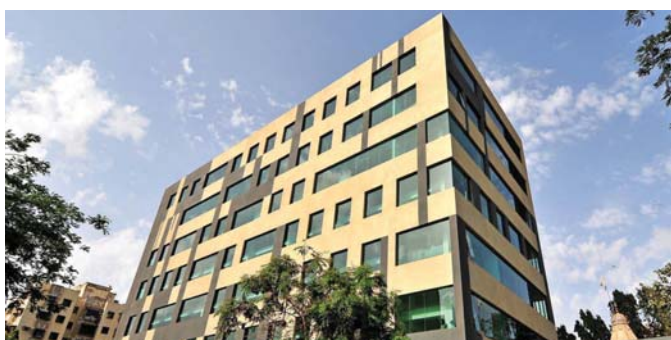
*Fund owns 36.88% stake in the SPV.

Transaction Overview and Investment Rationale

The Fund has successfully exited from its investment in 247Park Building at Vikhroli, Mumbai - A Gold rated green building developed by HCC Real Estate. The exit was concluded by selling the Fund's stake in Vikhroli Corporate Park Private Limited (VCPPL) to one of India's largest foreign institutional investors. This exit was one of the largest exits concluded by a private equity fund in Commercial Real Estate market in India. The proceeds from this exit have been distributed to the investors in the previous quarter.

The Fund had held back a portion of the exit proceed towards Indemnity to Buyer (Rs 5.06 Crores) which would be distributed to the Investors post March 31, 2016 net of such claims and expenses, if any. Till 30th September 2015, the Fund has not received any such claims and therefore continues to hold this amount with it.

Additionally, as per the terms of the Sale Agreement, there is a performance linked payout which will be paid by the Buyer on achieving certain milestones in a defined time period. The due process for the same has been initiated and the exit proceed will be 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.

In the previous quarter, the fund managed an extension to the notice of vacation given by Pfizer who is now likely to stay in the premises till January 2016. In the meanwhile, the Fund team has been actively pursuing leads with potential tenants to fill the imminent vacancy. A drop in the rentals from this asset is likely which will translate into some depreciation in the value of this investment. The team has also initiated discussions with brokers and potential buyers for exit 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

Down Town Center (DTC) is a 360,000 sq ft mixed use development located in Erandwane at the heart of the up-market commercial hubs of Pune. The property has floor plate of approx. 41,000 sq ft in area and contains amenities and fixtures best suited for IT/ITeS operations. The Fund has invested in 5th, 6th and 7th floor of the property.

In the previous quarter, managed to lease the entire balance area of about 66,000 sq ft and achieve 100% occupancy in the property. However, the rentals from these new tenants will stabilize in 3 to 6 months since the space take by tenants will happen in a phased manner. The team expects better traction from the potential buyers now that the occupancy in the property has been improved.



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