



Connect

November 2014

Foreword

▶ **Rubi Arya**
Vice Chairman & Director



Dear Friends and Associates

I am happy to present to you the November' 14 issue of CONNECT, our quarterly corporate e-newsletter.

The past quarter has been absolutely robust for all of us at Milestone. Our 10th fund, Milestone Opportunities Fund 10 has hit the road commercially and has seen a positive response from our existing and new investors and distributors. We have been able to mobilize a significant amount of capital within a short span and are on track to mark our first close soon. This new fund, being the shortest tenure fund in the market (3 ½ yrs) is innovatively structured to invest into mid-segment residential projects in top 5 cities, in order to provide preferential returns to investors, making it a one of its kind investment opportunity when compared to other comparative offerings in the market. Given the positive feedback from all our stakeholders, we expect to fully raise the fund by March 2015.

In the last quarter, we have successfully divested 6 of our key investments from our existing funds, thereby generating returns at healthy multiples for our investors, keeping in mind Milestone's inherent strategy of balancing liquidity and profitability, through a strategic process of deal sourcing, investment nurturing & exits. We successfully exited from Godrej Prakriti (Kolkata), at a multiple of 2.3x. Our marquee investment – ACORN Logistics Park (Mumbai) generated a multiple of 1.5x making us one of the few players to derive positive returns from the difficult warehousing space. Additional divestments include a mall in Rajkot, a commercial asset in Hyderabad and residential assets in Nagpur, Pondicherry & Madurai. I am happy to mention that, till date, Milestone has distributed over Rs. 2000 crores, around 70% of the total funds raised.

We have made an additional investment with one of our earlier developer partner – ATS, continuing our investment strategy to partner with the right developers so as to identify the right investment opportunities, hence exits at healthy valuations. Since 2012, apart from focusing on exits, Milestone has also invested over Rs. 500 cr across 13 deals pan India.

Noteworthy to share would be that, we have successfully closed our Milestone Bullion Scheme in October 2014. This unique fund was innovatively designed to capitalize on expected increase in Gold, Silver and other precious metals. Even amidst difficult times for the bullion market, our fund has done relatively better. This is the first fund which has been fully closed and proceeds have been returned to our investors.

As part of our strategic initiatives, our Trusteeship business was launched a few months back and commenced working with some of the biggest brands in the BFSI space. We are optimistic that this business will also grow at a rapid pace. Additionally, as we have already procured the NBFC license, we hope to soon commence operations on this front as well.

A number of regulatory changes & policy measures have been initiated that are likely to transform the Indian real estate sector. For instance, in the past couple of months, norms for FDI in real estate were relaxed and REIT regulations were notified. Fund raising in the real estate sector had peaked in 2006, with fund flows touching USD 2.3 billion and we expect overall private equity investments to exceed USD 2 billion by end of 2014 with potential to increase manifold in the years to come. It is our belief that firms like ours who have demonstrated relative outperformance in full cycle capability, are poised to benefit from the same.

We expect the next months to be full of action both at a macroeconomic level as well as for real estate. I thank you all for your support and look forward to sharing the progress of our new fund offering when I CONNECT again.

Business Updates

Real Estate Development Funds

Indian real estate continues to be a preferred sector for investments from international as well as private investors. Aided by the government's robust plans and favourable initiatives, the residential as well as commercial segments of the real estate industry are on the cusp of a major growth phase.

Excise duty reduction on key components such as cement and steel will lower project costs and expansion of the interest subsidy on loans will boost developers' interest in the development segment. Moreover, tax measures such as increasing the limit of interest deduction on home loans will provide necessary motivation to consumers to increase buying activity and revive demand in the value and affordable segment.

The government's plan to build and develop 100 smart cities will also boost new peripheral locations, create jobs and create industrial housing demand and at Milestone we are gearing ourselves to participate in the investment opportunities that are thrown open as a result.

At Milestone, we are extremely bullish on the residential space and are of the opinion that the next 3-4 years will witness a major boost in the sales velocity of housing projects. We have tied with a few reputed developers from NCR and are in the process of finalizing a few more investments in Mumbai & Bangalore to harness the expected boom phase.

► Milestone Domestic Scheme - I

Funds Received	Rs. 219.3 Crores
Final Closing Date	31st March, 2008
Term	5 years + 1 year + 1 year
No. of Investments	15
Committed Amount	Rs. 218.3 Crores
Capital Divested	Rs. 156 Crores (71%)
Income Generated (Pre-tax)	Rs. 76 Crores
Total Divested Amount	Rs. 232 Crores (106%)

► Milestone Domestic Scheme - II

Funds Received	Rs. 398.0 Crores
Final Closing Date	30th November, 2008
Term	4 years + 1 year + 1 year
No. of Investments	13
Committed Amount	Rs. 322.9 Crores
Capital Divested	Rs. 195 Crores (49%)
Income Generated (Pre-tax)	Rs. 119 Crores
Total Divested Amount	Rs. 356 Crores (89%)

► Milestone Domestic Scheme - III

Funds Received	Rs. 394.0 Crores
Final Closing Date	31st January 2012
Term	3.5 years + 1 year + 1 year
No. of Investments	8
Committed Amount	Rs. 279.5 Crores
Capital Divested	Rs. 15.0 Crores (4%)
Income Generated (Pre-tax)	Rs. 91 Crores
Total Divested Amount	Rs. 106 Crores (27%)

► Milestone Fund LLC

Funds Received*	US\$ 75 mn
Final Closing Date	30th March, 2009
Term	6 years + 1 year + 1 year
No. of Investments	5
Committed Amount	US\$ 66 mn
Capital Divested	INR 283 mn (US\$ 5 mn)
Income Generated (Pre-tax)	INR 560 mn (US\$ 9 mn)
Total Divested Amount	INR 843 mn (25 %)

* Exchange rate 1 US\$ = INR 45.32 at the time of fund received



Real Estate Rental Yield Funds

Commercial real estate prices are currently low when compared to residential real estate. The major reason behind this is the oversupply of office spaces. However, with a stable government at the Centre and a renewed sense of confidence among corporates, demand for office spaces is set to increase.

Commercial real estate is expected to benefit from the increasing number of new enterprises that are being registered every year. These enterprises are not only internationally based businesses, but also a number of Indian entrepreneurial businesses that have shown a steady growth over the years. Moreover, the proposed changes in the FDI norms in real estate should augur well and encourage long-term investments in commercial real estate. The change in sentiment is fuelling capital inflows to India. With several foreign companies looking to set up operations in India, they too will require large office space, which will push up demand for commercial real estate in the coming years. The much awaited REITs will create depth, liquidity, and transparency in the market.

At Milestone, our rental yield funds are fully deployed and are generating stable yields consistently. We are optimistic about this space and expect the revival in the near future.

► IL&FS Milestone Fund - I

Funds Received	Rs. 516 Crores*
Final Closing Date	31st March, 2008
Term	4 years +1 year +1 year
No. of Investments	6
Committed Amount	Rs. 486.75 Crores
Capital Divested	Rs. 328 Crores (64%)
Income Generated (Pre-tax)	Rs. 274 Crores
Total Divested Amount	Rs. 601 Crores (107%)

*Includes the corpus of co-investment vehicles

► IL&FS Milestone Fund - II

Funds Received	Rs. 570 Crores
Final Closing Date	31st March, 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 (34%)

*Includes the corpus of co-investment vehicles

► IL&FS Milestone Core Plus Retail Fund LLC

Funds Received	US\$ 22 mn
Final Closing Date	19th December 2011
Term	5 years +1 year +1 year
No. of Investments	1
Committed Amount	US\$ 22 mn
Income Generated (Pre-tax)	INR 120 mn (11%)

* Exchange rate 1 US\$ = INR 45.71 at the time of fund received

Bullion Products



Milestone Bullion Series - I was a unique initiative by Milestone Capital Advisors, which offered a timely opportunity for investors to invest in securities directly linked to physical Gold and Silver. Bullion investments are worldwide renowned for their hedging properties, however, in India, they also hold a value as traditional investments.

The Series was launched in 2010, which was a very opportune time to invest in bullion largely due to the global factors driven by the financial crisis of a few major western economies, which had the central banks around the world subscribe to easy monetary policies and increase exposure to gold substantially. As a result, precious metals by their virtue of hedge against inflation were set on an upward trajectory. The Series invested in metals in a disciplined tranche-wise manner and despite the extreme volatile scenario during the period, was able to achieve average purchase prices of approximately Rs 20,000/10Gms for Gold and Rs 48,000/KG for Silver*. Metal prices soon appreciated to reach their all time highs. However, much of this appreciation had come from speculating investors which faded quickly.

The divestment process was designed in a similar fashion to achieve better average prices than market benchmarks. The process was initiated as early as mid-2012, close to the peak of the prices. However, prices started falling thereafter and they have been trading lower ever since. Through opportunistic and systematic sales during the periods of consolidation, the Series finally achieved average sale prices of approximately Rs 30,000/10Gms for Gold and Rs 45,000/KG for

Silver*. Proceeds from liquidation were distributed in form of multiple payouts made during past many quarters. Bullion markets continue to remain under pressure, trading close to the record 4 year lows due to a stronger US Dollar and subdued global demand for these metals. Prices for Gold and Silver are currently oscillating around Rs 25,500/10Gms and Rs 35,000/KG respectively which is 15% and 22% lower than the average exit prices.

The Series has concluded its divestment process in the month of October. Liquidation of last of its investments from physical Silver was done during the short consolidation period before the festival season. Milestone Bullion Series - I has become the first business initiative by Milestone Group to mark its closure. The series is under process of finalizing the payouts to investors.

*Average purchase and sale prices mentioned are calculated for the entire PMS series. Prices for individual portfolio may vary depending upon their entry to the PMS series and investment schedule

► Milestone Bullion Series - I

Funds Received	Rs. 330 Crores
Final Closing Date	31st October, 2010
Term	3 years +1 year
Committed Amount	Rs. 315 Crores
Capital Divested	Rs. 315 Crores
Income Generated (Pre-tax)	Rs. 70 Crores
Total Divested Amount	Rs. 385 Crores (117%)

Team Enhancement

Sandeep Chadha, Senior Principal – Real Estate Investments

With over 11 years of experience in Real estate investments, asset management and business strategy, his past assignments include managing 25 mn sq. ft. of commercial real estate for Unitech and asset management of yield assets for Everstone and IL&FS Milestone Realty. At Milestone, he oversees the entire rental yield portfolio on behalf of the IL&FS Milestone funds.

Praveen Jain, VP – Fund Raising

With over 14 years of work experience, he was associated with Axis Bank in the Private Banking vertical as Regional Head of Gujarat. Previously he has had successful stints as a Private Banker with Credit Suisse and Kotak and has also played an instrumental role in setting up the Wealth Management practice for HSBC.

Good to know!

Can a residential REIT model succeed in India ?

With the central government laying down the ground rules for Commercial REITs in India, a logical extension would be introducing norms for listing residential assets as well. The question that needs to be answered is that will a residential REIT model be successful in India?

The answer is YES. Thanks to the ever-increasing capital values of residential properties in recent years, buyers have started to find owning an apartment less affordable. Further, in search of better job opportunities and lifestyle, the younger generation has become more mobile, and hence demand for rental properties is increasing. The government had started rental housing schemes, but did not meet with the expected success due to various reasons, such as high land cost, taxation policies and distance from business districts. However, the proposed development of 100 smart cities will increase the demand for rental apartments. This in turn will result in a reduction in the gap between capital values and rental values, resulting in increasing yields and a stronger case for residential REITs in India. So yes, residential REITs can succeed in

India, but the change will be steady and will take at least another 7-10 years. Given below is a break of the residential rental yields across top Asian countries, which clearly states the potential that India has to discover in terms of higher yields.

Philippines	7.53%
Indonesia	7.05%
Cambodia	5.33%
Thailand	5.13%
Japan	5.02%
Malaysia	4.57%
Singapore	2.83%
Hong Kong	2.82%
China	2.66%
India	2.39%
Taiwan	1.57%

Source: Global Property Guide Research



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