YATRA CAPITAL

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Investor Update
January 11, 2009

India Notes

In this issue:

We at Yatra Capital wish all shareholders a happy and successful 2009.

As we begin the third year of our operations, we wish to thank all our shareholders for their continued support and confidence and we look forward to working with each of you, individually and collectively, in the coming year.

In this issue of India Notes, we bring you updates on the developments in the Indian economy, markets, politics and the real estate sector. We also bring you a snapshot of the residential sector.

Inflation - Inflation declined for eight weeks in a row and came down to 5.91% for the last week of December 2008. Aditya Puri, CEO HDFC Bank, India's second largest private bank, said, "We expect inflation will come down to 2-3% levels by March 2009."

Indo-Pak Relations: Sub-continental geo-politics continues to draw international attention as India and Pakistan try to minimize the fallout of the November 2008 attacks on Mumbai.

Mixed bag of corporate earnings in the third quarter: As the corporate earnings reporting for the third quarter of FY09 begins over the next two weeks, we expect a mixed bag of results as most companies are set to report lower profitability given the impact of the global slow down while some others will beat market expectations.

Indian government prepares for elections early 2009: As the five-year term of the present government led by Prime Minister Manmohan Singh comes to an end, the government and the opposition parties are preparing for polls, reportedly at some time between March and May 2009.

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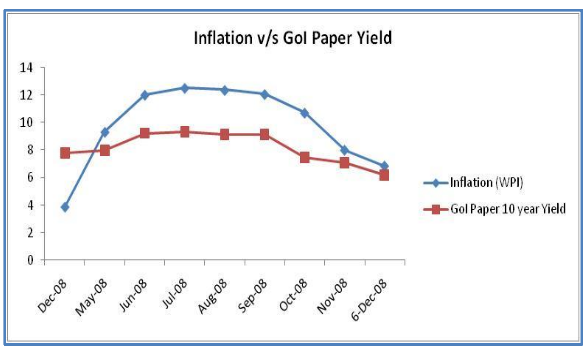
Economy

Inflation eases: Headline inflation fell to a nine month low of 5.91% for the week ended December 27, 2008 as fuel and other commodity prices saw a further decline. However, prices of some agricultural commodities continue to show a rising trend. The cut in petrol and diesel prices and the four per cent cut in excise duty announced in early December 2008 will have a cascading effect on all commodity prices in the coming months.

Current inflation levels are well below the seven per cent target set by the Reserve Bank of India (RBI) for March 2009, indicating that there may be further room for monetary and fiscal measures to revive economic activity. Inflation is expected to drop to the 2-3% range by March 2009, comparable to December 2007 levels when it was at 3.74%.

The government responded to declining inflation with cuts in key bank rates, with the yield on 10 year government paper declining to 4.86%, a four year low.

Inflation - Yield Trends



Source: Ministry of Finance, Government of India

Key bank rates cut as government unveils second stimulus package: The Indian government responded to lowered inflation rates by cutting key bank rates and introducing a second set of measures expected to revive the real economy. The central bank cut repo and the reverse repo rates by 100 bps to five per cent and four per cent, while the cash reserve ratio (CRR) was cut by 50 bps to 5%, easing liquidity further.

Highlights of the package include prudent incentives in the infrastructure and real estate sectors and higher investment limits for FIIs in corporate bonds. To facilitate access to funds for the housing sector, the development of integrated townships would be permitted as an eligible end-use of foreign currency borrowing (external commercial borrowings or ECBs).

The RBI has lowered key rates aggressively in the last three months - CRR has been reduced by 400 bps, while the repo rate is down by 350 bps. The Statutory Liquidity Ratio (SLR) has also been lowered to 21% from the 25% maintained for the past 11 years.

However, given the uncertain international global economic environment and weak business sentiments the earliest impact of the packages is expected to be felt in the second half of 2009.

Highlights of the packages:

Package I	Package II
Repo and reverse rates lowered by 100 bps to 6.5% and 5%, respectively.	Repo and reverse repo rates cut further to 5.5% and 4%, respectively
Four per cent cut in excise duty across commodities	Cash Reserve Ratio reduced by 50 bps to 5%; will infuse EUR 4.39 billion
Loans to housing finance companies to be considered priority sector lending	Housing sector allowed to access foreign currency debt ECBs for integrated townships
One time restructuring of the banks' exposure to commercial real estate loans	Foreign Institutional Investors (FIIs) investment limit in rupee denominated bonds raised to EUR 10.74 billion
Increase in expenditure on infrastructure by EUR 2.92 billion March 2009	India Infrastructure Finance Company Limited (IIFCL) to raise EUR 4.39 billion

Impact of the packages:

- Aggressive rate cuts will release additional liquidity of EUR 4.39 billion into the system, encouraging corporate and individual borrowers to avail credit at reduced rates, creating demand in the economy.

- Funds raised by IIFCL will aid infrastructure projects awaiting financial closure and elicit a better response for newly launched public private projects.

- Real estate players developing integrated townships will be able to take advantage of ECBs to reduce the overall cost of funds. This will provide much needed liquidity for large integrated projects.

Government to spend more on Infrastructure: The Indian government will spend an additional EUR 38.05 billion on urban and rural infrastructure projects including housing, roads, urban infrastructure development in small and medium towns and slum redevelopment schemes. An additional EUR 723 million has been made available for the development of highways while EUR 2.02 billion will be invested on developing metro rail networks.
While the government has tabled a grant in the Indian Parliament for EUR 4.39 billion towards infrastructure expenditure, the World Bank will lend EUR 9.89 billion over the next three years while development agencies of UK, Germany and Japan will together lend close to EUR 700 million. A part of these loans will also be spent on primary education and healthcare.

Markets & Politics

Markets: The benchmark stock price index, Sensex, remained range-bound on limited volumes as retail investors stayed away. Domestic institutions were net investors during December investing EUR 231.5 million. Life Insurance Corporation of India, the country's largest insurer, increased its stake in several banks including HDFC Bank. A mid year report by the RBI said that Indian banks continued to be in robust health as savings and deposits increased and bank balance sheets grew. However, international investors largely stayed away from the Indian equity markets, though some were seen to be bottom –fishing and bought equities worth EUR 314.44 million.

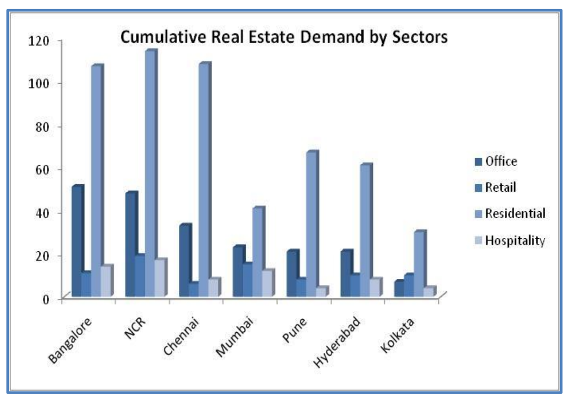
Politics: The results of elections for local governments in six key states (seen as a snapshot survey for the national elections in April 2009) showed that local issues had a greater impact on the outcome.

In three of the northern states, Madhya Pradesh Delhi and Chhattisgarh the previous governments were returned to power on the strength of their performances. In Rajasthan the ruling Bharatiya Janata Party was defeated and the Congress swept into power as it did in the north-eastern state of Mizoram on the Bangladesh border. In Jammu & Kashmir too the Congress Party will form the new government in a coalition with a regional party, the National Conference.

Real Estate

Home loans rates ease: In an effort to stimulate the real estate markets the public sector banks have announced special rates for home loans up to EUR 7300 at an interest rate of 8.5% and for loans up to EUR 28,000 at 9.25%. This is significantly lower than rates for higher loan amounts which are currently between 11.5-14.25%.

Projected Real Estate Demand by 2012



Source: Cushman & Wakefield

Stress on developers' to ease: The credit crunch caught many developers who had high-cost debt on their books on the wrong foot. Sale and lease volumes dipped across several micro markets that had seen a quick rise in prices as demand slowed down in the wake of the general economic slowdown. This in turn led to several micro markets witnessing a downward trend in prices. Recent measures announced by the government are expected to impact the credit situation positively as liquidity eases and developers with good track records find it easier to get credit.

India moves up on the JLL Transparency Index: Jones Lang LaSalle's transparency index for 2008 shows that the transparency levels among Indian real estate companies has steadily improved over the last six years – from low transparency to semi-transparency at the same level as China. India scores high on listed vehicles and the differences between the Tier I and II cities is narrow compared to those in China. The primary difference is the availability and quality of information. JLL expects that transparency levels will improve by 35-50 bps over the next two years as the industry consolidates and matures.

Industry seeks incentives for affordable housing: Developers sought fiscal incentives to construct small houses at affordable prices. They said an increase in construction activities would simultaneously give a fillip to other industries, including cement, iron and steel, limestone and chemicals, besides generating employment opportunities.

Real Estate Transparency Index 2008
Asia- Pacific

Country	Transparency Level	2008 Score	Global Rank
Australia	High Transparency	1.20	2
Japan	Transparent	2.39	26
China Tier I Cities	Semi-Transparency	3.33	49
India Tier I Cities	Semi-Transparency	3.34	50
India Tier II Cities	Semi-Transparency	3.38	52
Vietnam	Low Transparency	4.29	77

Source: Jones Lang LaSalle, LaSalle Investment Management

Market Activity

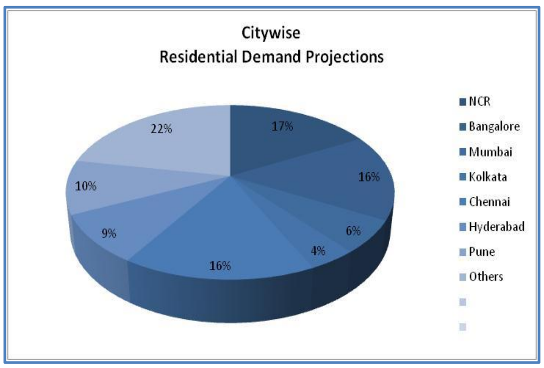
Investor	Investee Company	Investment Amount	Description
Duet Group	NA	NA	Has acquired three new hotel properties located in Pune, Jaipur and Ahmedabad from two UK based investors Starlight Investments and Insureprofit
U Dori Group	Surana Group	EUR 18.1 million	Has acquired a 50% stake in a residential joint venture
IL&FS	NA	NA	Closed its second India Realty Fund at EUR 529 million
Avanta	NA	NA	The UK based serviced offices operator has leased over 90,000 square feet of prime space in Mumbai and New Delhi
Fraser Hospitality	NA	NA	Has signed contracts to manage seven hotels by 2011
Indiareits	Neptune Group	EUR 43.4 million	Has invested in an entity level transaction for a 15% stake
Metro Cash & Carry	NA	EUR 130.4 million	Will set up six distribution centres in Punjab in northern India
Marathon Views	Lakepoint Builders	EUR 26.8 million	Has taken a 49% stake in the Hiranandani group company
Bengal Shristi Infrastructure Development	NA	EUR 2.8 billion	Will invest in developing nine million square feet of affordable housing around Kolkata
JAL Hotels	DB Hospitality	NA	Have signed a joint venture agreement to operate 1000 rooms by 2011 across 11 cities

Source: Media reports
Conversion rates: 1 EUR = 1.4 USD; 1 EUR = 68.4 INR

Focus - Residential Sector

Demand forecast: Total estimated demand for residential space by 2012 is approximately 687 million square feet, of which 77% will be in the metros, says a recent Cushman & Wakefield report. Of these, Chennai has the highest growth rate at 9%, followed by Bangalore (6%), Pune (4%) and Mumbai (3.7%). The National Capital Region (Delhi inclusive of outlying regions such as Gurgoan and Noida) is expected to see the maximum demand with 114 million square feet, while Mumbai will see demand close to 55 million square feet over the 2008-10.

Residential Sector Demand Projections



Source: Cushman & Wakefield

Housing stock expected to rise by 19 million units by 2012: The housing stock in the country, currently at 146 million units is expected to grow at a CAGR of three per cent or 4.6 million units annually to 165 million units. A government estimate released last year said that there was a shortage of 24.7 million houses in the country, mainly in the lower income categories.

Budget homes gain visibility: With the government owned banks announcing special schemes to promote housing for lower income groups, many developers have announced projects for mid- and low-income housing. Confederation of Real Estate Developers Associations of India (CREDAI), the apex body of developers' associations has proposed developing Special Residential Zones along the line of Special Economic Zones with tax breaks to develop large scale dedicated zones for affordable housing.

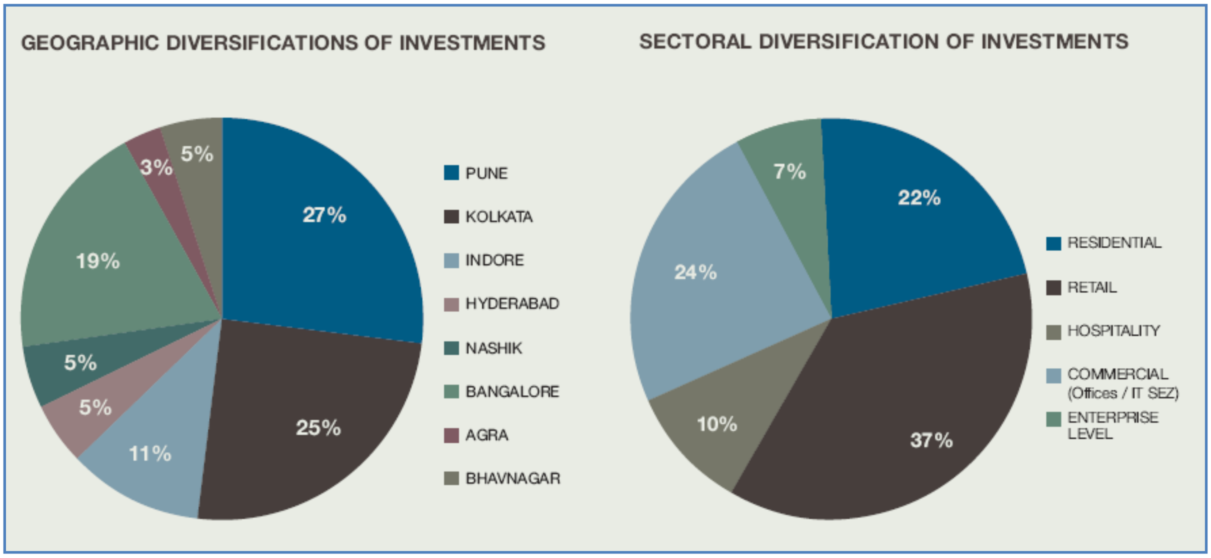
Ongoing construction activity at Yatra's Saket residential project in Hyderabad – the project is expected to be completed by March 2010

Slum Rehabilitation: Another sub-segment that will witness increased activity in the coming months is slum rehabilitation, especially in Mumbai where the state government has drawn up plans to redevelop the 500 acres of Dharavi, Asia's largest slum home to over 50,000 families and thousands of small industrial units. In other parts of the city too, developers have taken up slum rehabilitation projects that will add new units to the existing housing stock.

Impact of the IT slowdown: The residential sector forms nearly 70% of the Indian realty business with much of the demand coming from consumers employed in the services sector. As demand from this sector is revised on global cues, it is expected to impact residential off-take in the near to medium term as potential buyers put off buying decisions. This phase is expected to last for the next two to three quarters.

Affordability expected to increase: In CY 08 lower property realizations on the back of rising interest rates and property prices led to a slippage in sale volumes, leading to developers lowering prices. A combination of the recently lowered interest rates and the re-pricing in residential properties is expected to raise the affordability factor in the housing sector in the coming months on an all-India basis as buyers are expected to come back into the market once the sentiment improves.

Your Portfolio



Yatra has made good progress towards maintaining value and mitigating risk by building a diversified portfolio of real estate investments in India. To date, land has been acquired in all the projects, construction has begun in eight projects and pre-construction activities are progressing in the remaining six.

We continue to build on our track record as a well-established participant in the Indian real estate market and consolidate relationships with our development partners and other stakeholders in the real estate arena.