

India Notes

In this issue of India Notes we review the progress of Yatra's investments. To date land has been acquired in all the projects, construction has commenced in ten and in the remaining four projects pre-construction activities are on.

We also bring you updates on the Indian economy, markets and the real estate sector. The events of January 2009 were a continuation of the themes played out in the last quarter of 2008 - with the government considering more measures to ease the pain of the widening effects of the global recession, expectations that the interest rates would ease further, and easing home rates in an effort to stimulate the real estate markets.

The effect of these measures will be visible with a lag effect as sentiments may take sometime to revert to an investment-friendly mode. Moreover with national elections scheduled in April-May 2009, the economic momentum has slowed down considerably.

Highlights of the month include:

New FDI guidelines: The Indian government simplified foreign direct investments (FDI) guidelines this week - all investments directly by a non-resident entity into an Indian company will be counted as foreign investment, while foreign investment through an investing Indian company will not be considered for calculation of indirect foreign investment, in case the Indian company is owned and controlled by resident Indian citizens. This paves the way for more FDI in sectors with a cap on foreign investments such as telecom, media, banking and insurance.

India signs nuclear safeguards agreement: India and International Atomic Energy Agency (IAEA) signed the civilian nuclear safeguards agreement, paving the way for the 45-member Nuclear Suppliers Group (NSG) to supply fuel and technology for India's ambitious nuclear power programme with a cumulative deal potential of US150 billion over 30 years.

Investor Update February 20, 2009

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Economy & Markets

RBI credit policy review: In its mid-term review of the credit policy, the RBI kept key rates unchanged given that the recent rate changes are expected to take effect with a lag. In a span of four months, the RBI has lowered Cash Reserve Ratio by 400 bps, the repo rate by 350 bps and the reverse repo rate by 200 bps. This cumulative reduction has injected around EUR 35.53 billion into the economy, easing liquidity considerably. However, as deposit rates remain high, the extent of lending rate cuts has been low. Alignment between the two is expected in the short term. RBI also revised the annual growth rate to 7% with a downward bias.

Credit outflows: Year on year growth in non-food bank credit was at 23.9% as on January 2, 2009, higher than 21.7% a year ago. Bank credit on account of all sectors except housing (see table below), have improved year on year, signaling that bank balance sheets have expanded. This was also borne out by the public sector bank results for the December quarter which performed better than expected. The RBI attributed the perception of lack of credit availability to reduced fund flows from non-banking sources, notably foreign currency borrowings (ECBs) and capital markets. A Dun and Bradstreet note pointed to the increased amounts deposited by the banks with the RBI despite the lowered reverse repo rate and attributed it to increased risk aversion among lenders.

Sector wise credit flow

Sector	As on December 21, 2007 (y-o-y)		As on December 19, 2008 (y-o-y)	
	Amount EUR mn	Growth in %	Amount EUR mn	Growth in %
Agriculture	6065.13	19.3	8526.47	22.7
Industry	24840.4	24.9	37548.96	30.2
Real Estate	2166.5	35.8	3948.71	48.1
Housing	5054.58	14.6	3498.61	8.8
NBFCs	3651.99	59.6	3925.63	40.1

Source: RBI

Inflation eases: India's annual rate of inflation dropped to 4.39 per cent for the week ended on January 31, 2009 from 5.07 per cent the week before, closer to the year ago figure of 4.78%. Inflation has more than halved from a 13-year high of 12.91 percent in August 2008 due to a reduction in oil and other commodity prices as well as the widening effects of the global recession.

Corporate earnings and markets: Markets remained range bound as retail investors continued to stay away and institutional investors came back in a small way. Corporate earnings were down in several sectors including metals, cement, automobile and real estate. Besides domestic woes, the growth and profitability of companies dependent on exports were under pressure on account of the global financial crisis.

Real estate

SBI lowers mortgage rates: State Bank of India, the largest government owned bank lowered interest rates for home mortgages to 8% for a year. The move is aimed at stimulating the demand for home loans. The other government owned banks are expected to make similar rate cuts in the near term.

Government may ease investment norms for mixed use projects: To ease the flow of FDI into the real estate, the ministry of commerce has proposed that mixed use projects should be exempt from minimum capitalization and area development norms. However, the three year lock-in will continue and the developer will have to ensure that at least 50% of the area is used for hotels or tourism related activities.

Property prices continue downward trend: Residential property prices and commercial rentals witnessed a correction in many micro-markets in the December quarter. Residential prices in micro-markets in the Delhi National Capital Region, Mumbai and Bangalore fell by over 20% y-o-y. Office rentals also declined by over 30% y-o-y in

pockets such as Lower Parel and BKC in Mumbai and Old Mahabalipuram Road in Chennai with rising vacancy rates. However, further price corrections are required in pockets such as Mumbai suburbs, for affordability to improve.

Developments slowdown: Weak Q3 results in January 2009 highlighted that development activity has slowed down considerably. Downside risks include slowdown in sales and construction, and funding requirements. The upside may come from further lowering of borrowing rates, signs of a recovery in transaction volumes and better access to funding for developers.

Market moves towards affordable housing:

Several developers in metros such as Mumbai and Delhi are moving towards affordable and middle-income housing as an alternative business strategy. In the Delhi NCR region and the southern city of Chennai, several schemes in the range EUR 22,220 to EUR 40,000 have been launched in the past few weeks. With so many developments coming into the market, developer credibility and track record for reliability and delivery would become crucial, says a Citigroup Global Markets note on the Indian property market.

Market Activity

Investor	Investee Company	Investment Amount in EUR	Description
IL&FS	HBS Realtors	46.39mn	For a 60% stake in the company
IL&FS & Milestone Group	NA	21.6mn	In a one million Sq ft IT Park by Kumar Builders
Sun-Apollo Ventures	Keystone Realtors	46.39mn	For a 49% stake in the company
Housing Development & Infrastructure Limited	NA	18.26mn	To buy an 8.32 acre industrial plot in Mumbai
Tata Realty	NA	127mn	Has refunded parent company Tata Sons' investment in the company
Ansal Group	NA	7.9mn	To invest in constructing 10,000 affordable housing units over the next 18 months in North India
Leela Hotels	NA	NA	Has tied up with Preferred Hotel Group, a US-based hotel operator
Ticel Biotech Park	NA	19.05mn	A government owned biotech park near Chennai, to construct 450,000 sq ft of additional space
NA	NA	143.15 /sq ft/ per month	World's highest rental for a 133 sq ft shop in south Delhi

Source: Media reports

Portfolio Progress

Market City Retail, Pune

Asset class: Mixed use

Development area: 2.37 million sq ft

Project Update

Land Acquisition: Completed

Development Plans: Completed

Planning Approvals: Received

Environmental Clearance: In process, some initial approvals received



The upper basement slab for the mall A and the office block is nearing completion and work on the 3rd floor slab has commenced. Lifestyle, a pan India department store chain has signed a LOI for leasing 87,500 square feet by way of a revenue share agreement with a minimum guarantee of EUR 0.87 per square feet/month or 7% of revenues, whichever is higher.



Market City Hospitality, Pune

Asset class: Mixed use

Development area: 300,000 sq ft

Project Update

Land Acquisition: Completed

Development Plans: Completed

Planning Approvals: Received

Environmental Clearance: In process, some initial approvals received

Hotel Operator: Radisson Plaza



Construction has been completed up to the upper basement level and is expected to be completed by September 2010. Debt of EUR 15.25 million has been sanctioned jointly by State Bank of Hyderabad and State Bank of Indore.

Treasure Market City, Indore

Asset Class: Mixed use

Development Area: 2.8 million sq ft

Project Update

Land Acquisition: Completed

Development Plans: Completed

Planning Approvals: Received

Environmental Clearance: Received



Ninety-three per cent of the work on lower basement, 43% on the upper basement, 32% on the ground floor and 36% on the first floor have been completed. Work on the second floor has also begun. In addition to the 200,000 square feet committed already, the developer is in advanced discussions with brands like Walmart, The Bombay Store, Fashion and Ethnicity for further leasing of approximately 150,000 square feet. Application for additional debt of EUR 13.73 million has been made to the government owned Housing and Urban Development Corporation Limited (HUDCO).

City Centre Mall, Nashik

Asset class: Retail

Development area: 0.8 million sq ft

Project update

Land Acquisition: Completed

Development Plans: Completed

Planning Approvals: Received

Environmental Clearance: Received



Key anchors such as Big Bazaar, Pantaloons, Westside, Café Coffee Day, Cinemax as well as some vanilla retailers, have begun fit-outs. More fit outs are expected to start by March 2009. Formal launch of the mall is expected in April 2009 with approximately 59% occupancy. Construction debt is due for repayment on 31st March 2009. Talks are underway with the banks to convert the same into a rent securitization facility.

Treasure City, Indore

Asset class: Residential

Development area: 3.6 million sq ft

Project update

Land Acquisition: 132 acres have been acquired and the remaining nine acres are in the SPV's possession and is being registered

Development Plans: In process

Planning Approvals: In process

Environmental Clearance: In process



Prospective buyers have shown strong interest following a soft launch. Formal launch is scheduled for March 2009. The fund advisor has initiated discussions with Ashiana Housing for setting up a retirement homes project, and with hospital operators for setting up a healthcare facility within the township. The SPV has applied to HUDCO for debt; sanction is expected once all approvals for commencement of construction are received.

Himalaya Mall, Bhavnagar

Asset class: Retail
Development area: 0.6 million sq ft

Project update

Land Acquisition: Completed
Development Plans: Completed
Planning Approvals: Received
Environmental Clearance: Received



Construction has been completed up to the second floor slab. Given the current retail leasing environment, the timelines and specifications are being reviewed. From a leasing perspective, it may be advisable to finish the construction process by Q1 2010 instead of Q3 2009 as planned earlier. Discussions with JV partners are underway and clarity should emerge by Feb 2009.

Advanced discussions with anchor tenants like Westside and Max Lifestyle and a few local discount brands are underway.

Phoenix United Mall, Agra

Asset class: Retail
Development area: 0.6 sq ft million

Project Update

Land Acquisition: Completed
Development Plans: Completed
Planning Approvals: Received
Environmental Clearance: Received from pollution board



Eighty per cent of the site excavation is complete. The promoters have shortlisted construction contractors with whom negotiations are in progress. Leasing discussions with key anchors are underway. Currently LOI has been signed for 7,000 square feet. The SPV is in advanced discussions with Canara Bank for a further debt sanction of €3.05 million.

Batanagar IT SEZ, Kolkata

Asset class: Office, Residential
Development area: 3.3 million sq ft

Project Update

Land Acquisition: Completed
Development Plans: Completed
Planning Approvals: Received
Environmental Clearance: Received



Piling and basement works are underway and are expected to be completed in March 2009 and July 2009, respectively. Initial term sheet for debt has been received from State Bank of India for EUR 14.49 million.

Technopolis II, Kolkata

Asset class: Office

Development area: 1.4 million sq ft

Project Update

Land Acquisition: Completed

Development Plans: In process

Planning Approvals: In process

Environmental Clearance: Not required



Site development work and piling work have commenced. Debt for the project has already been sanctioned.

Kurla Office Development

Asset class: Office

Development area: 0.6 million sq ft

Project Update

Land Acquisition: Completed

Development Plans: Completed

Planning Approvals: In process

Environmental Clearance: In process

Pre-construction activities are in progress.

Saket Engineers, Hyderabad

(Unlisted entity level investment)

Asset class: Residential

Development area: 5.8 million sq ft

Construction of super structure of 18 floors has been completed in the rear block and 12 floors have been completed in the front block in Saket Sriyam. Brick work has been completed up to the fourth floor in the rear block and second floor in the front block.

In Saket Pranaam Block A, five floors have been completed and work on the sixth floor is underway. In Block B the basement has been completed.

Sales have slowed down to an average of three units a month. Total number of units sold so far in Sriyam – 102 out of a total of 350 units; Pranaam – 52 out of a total of 333 units.

The company currently has debt sanctions amounting to €3.2 million. Given the current market situation and slower sales, the company is looking to raise an additional debt of €6.10 million to meet its construction needs.

A number of projects are under development in the vicinity of the project. In most of these projects sales are slow despite the discounts on offer.



Market City Retail, Bangalore

Asset class: Mixed use

Development area: 1.5 million sq ft

Project Update

Land Acquisition: Completed

Development Plans: In process

Planning Approvals: In process

Environmental Clearance: In process



Demolition work on the site is close to completion.

Water Supply, sewerage and sanitary approvals have been received. Further to the in-principle sanction of debt received last quarter, several other financial institutions such as HUDCO, SBI, LIC, Corporation Bank and Bank of Baroda have evinced initial interest in lending to the project and have conducted site visits. Financial closure is expected by July 2009. Given current markets, the timelines of the project are being reassessed and further clarity on this matter shall emerge by March 2009.

Market City Hospitality, Bangalore

Asset class: Mixed use

Development area: 910,000 sq ft

Project Update

Land Acquisition: Completed

Development Plans: In process

Planning Approvals: In process

Environmental Clearance: In process

Hotel Operator: Discussions in progress with Hyatt and others



Demolition work on the site is close to completion. Research Interface has been appointed for conducting a detailed survey to assess the residential and retail market in Bangalore. A joint team from Saffron and the JV partner is assisting in conducting the survey. Based on the findings of the survey the concept plan is expected to be finalized.



Taj Gateway, Kolkata

Asset class: Hospitality

Development area: 205,900 sq ft / 200 rooms

Project Update

Land Acquisition: Completed

Development Plans: Completed

Planning Approvals: Received

Environmental Clearance: Not required

MFAR, the construction contractor has mobilized resources and started piling work.

Advanced discussions are underway with Enersave Consultants which will provide Engineering Consultancy Services to avail Level II Green Globe Certification.



Residential Development, Pune

Asset class: Residential

Development area: 2.3 million sq ft

Project Update

Land Acquisition: Completed

Development Plans: In process

Planning Approvals: Obtained for Phase I of the project

Environmental Clearance: In process



Della Technica has been appointed as the architectural and MEP design consultants for the studio apartment block.

Product specifications and pricing (for studio and one bedroom apartments) are being finalized.

Test marketing for phase I is being carried out and a formal launch is expected in April 2009 after taking into account market feedback