

YATRA CAPITAL

Quarterly Report

April 2010 to June 2010

As on June 30th, 2010

Section I – Economic Outlook

2.1. Macro Economic Policy

Growth – RBI raises GDP growth forecast to 8.5 per cent

Adds reason to IMF's projections.

Amid the hype and surprise over the International Monetary Fund's 9.4 per cent growth forecast for this year, the Reserve Bank of India (RBI) has injected some reasoning into the numbers, as it revised India's growth projection to 8.5 per cent from 8 per cent estimated earlier.

While this might sound elementary, there was a word of caution, too. Unlike January-March, when the Indian economy is estimated to have grown by 8.6 per cent according to official estimates, January-March 2011 may not be as good, pulling down the overall growth rate for the financial year ending March. In the policy statement, RBI merely said the increase in its forecast was due to better-than-expected industrial production and its favourable impact on the services sector. Besides, it had factored in the global scenario. Most agencies, including the government, have predicted that the Indian economy would grow by around 8.5 per cent this year.

Credit growth

The central bank has estimated credit growth at 20 per cent for the financial year, so far, the growth in non-food credit up to July is estimated at to 22.3 per cent. However, bankers have warned a large part of the increase was on account of the loans extended to telecom companies who had to pay spectrum fee for third-generation (3G) mobile services. Banks have indicated the 20 per cent projection was in order as demand remained strong.

RBI has asked banks to sustain the growth in loan flow to micro, small and medium enterprises and ask branches to ensure the credit was made available to the sector, which was the largest employer after agriculture. In the year up to May 21, loan growth to small industry was estimated at 17.4 per cent, according to the latest data released by RBI.

Monsoons 2010 – Could see Abundant Rainfall

South-West monsoon rains (Jun-Sep), improved discernibly in end-July (July 21-28), rising 38% above normal in the week, thereby pulling down the cumulative rainfall deficit to 5% below normal, from -14% in the previous week and -16% in end-June. Except for north-eastern region, monsoon deficit improved in all other broad regions by end-July. More importantly, rainfall in the crop critical north-western belt turned normal while the southern peninsula recorded 11% above normal rain, up from +9% in the previous week.

The progress of Kharif sowing has also improved since mid-July, especially for rice (the most critical Kharif crop), rising 7.6%yoy as on 22nd July, up from 1.9% on 15th July. With monsoon having picked up sharply between 21-28 July, we expect to see further improvement in the sowing of major Kharif crops such as rice, which augur's well for the agricultural sector growth outlook. Economists expect agriculture sector GDP to grow by 3.5-4.0%yoy in FY10/11.

Inflation update

The 30th July 2010, inflation data showed a further rise in primary articles (+0.4%wow), while fuel inflation declined marginally (-0.1%wow). Despite the weekly rise, the year on year inflation rate for food (+9.7%yoy vs. 12.5%yoy) and primary articles (+14.5%yoy vs. 16.5%yoy) fell sharply from the last week, mainly on account of a supportive base effect. This is the first time in one year that food inflation has fallen below the double-digit mark. However, we expect food inflation to inch back higher once again to the double-digit territory in the subsequent weeks as the supportive base effect wears off from end-July. Going forward, the trajectory of food inflation will depend on how monsoon pans out in the next couple of months. Monsoon momentum has picked up sharply in the last week, and if it improves further in Aug and Sep (as per IMD's prediction), this can lead to softening in food prices from the second half of FY10/11.

Section II – Real Estate Outlook

Real Estate Markets

The real estate markets in India have started recovering but have also started exhibiting strong sectoral focus. Tier I residential markets have exhibited a bounce back of demand leading to escalation of pricing and a resultant drop in affordability which is impacting sales. In Tier II markets the recovery has been significantly slower but the heartening factor has been the stabilisation of sales and increasing number of enquiries.

The commercial and retail space has also seen a slow but now clearly visible recovery as corporate houses and retail houses come back into the market to lease. The recovery is clearly not as strong as that seen in the residential space but it is visible. It is expected that the recovery will attain stronger momentum during the second half of 2010. The terms and conditions in leasing still continue to be favouring the leaser as the supply overhang has not reduced but vacancies in most office markets are on a clear decline. With a lot of developers adopting a cautious approach and reconfiguring the commercial projects into the less capital intensive residential projects it is expected that the vacancies should reduce further to single digits.

The increased optimism and the strong bounce back of residential markets, in at least the Tier I cities, has seen a strong resurgence of record priced land deals to the levels evidenced during the pre crisis levels. Some of the potential underwriting of the land deals done by developers is clearly on the optimistic side and is creating a price bubble in some of the markets. The potential drag on the infrastructure and affordability will be a key factors in determining the success of such optimistic underwriting.

However the fundamentals of the sector continue to be intact on the back of demand for IT/ITES. The key reasons for the optimism about the sector are:

- the improving economy,
- hiring has resumed for the IT/ITES sector and salaries are increasing, and
- improving sentiment among potential buyers.

However, we see the main concerns as:

- continued weakness in the commercial and retail sectors, which has led to increased pressure on developers to maintain cash flow from the sale of residential space,
- expectation that an oversupply of newly-launched residential space could limit the upside potential for prices and thus NAV accretion over the next six months,
- the balance sheets of companies in the sector are improving but remain weak, and
- concerns in the market about the global macro-economic situation.

Sectoral Outlook: Residential

The dynamics of India's residential market during the last quarter has been varied with respect to volumes, prices, and project launches. Sales volumes in Mumbai fell while India's southern market (Bangaluru and Chennai) saw higher volumes MoM. The Mumbai market is expected to see new launches only post monsoon, at a lower price level; this will result in higher absorption levels. The demand is expected to remain firm, except during the Ani and Adi days (a non-auspicious period in Chennai). However, the Gurgaon market has seen robust absorption levels and price increases, even as prices have breached their historic peaks. It is good to note that inventory with builders and/or brokers in this market are low. In this backdrop, it is expected that a number of new launches in Gurgaon should happen soon.

Homes – demand to be region-specific

Following the sharp economic downturn in 4QCY08, volumes in the residential segment picked up in 1QCY09 as prices were cut by 25% on average – both for under-construction as well as new projects. This upward movement continued until October 2009, as pent-up demand from the earlier two years moved in to take advantage of better affordability, while improvements in the economy also supported fresh demand. This was especially the case for Mumbai and NCR. Unfortunately, expectations that volumes will continue to move up following better affordability in 1HCY10 have not been met as prices started moving up. Since October 2009, volumes have more or less stagnated. In FY11, Mumbai and Gurgaon volumes are likely to be stagnant. In contrast, in Bangalore and Chennai, where affordability is among the best in India, volumes continue to show a gradual improvement through FY11 as increased confidence amongst customers, wage hikes and improved hiring in the crucial IT/ITeS industry work their way through the system. For Hyderabad and Kolkata, analysts are not positive, given that they are oversupplied markets while they also face some degree of political turmoil and uncertainty. Looking at current trends across the regions, stable to slow growth in volumes seems to be the norm, and stable prices in CY10. Large developers are also targeting sale volumes that are approximately similar to their FY10 sale volumes. On the flip side is the fact that inventory with developers has consistently declined as they have kept a leash on new launches. Mumbai and Bangalore are two cities where inventory has declined significantly, thus providing support to prices.

Quarterly volumes and inventory data in top six regions (mn sqft)

Period	Primary market sale volumes	Inventory with developers
3Q CY07	79.7	315
4Q CY07	80.4	311
1Q CY08	82.7	313
2Q CY08	72.6	285
3Q CY08	53.5	277
4Q CY08	24.7	297
1Q CY09	43.5	310
2Q CY09	57.0	283
3Q CY09	58.7	278
4Q CY09	63.9	252
1Q CY10	68.1	250

Commercial Office

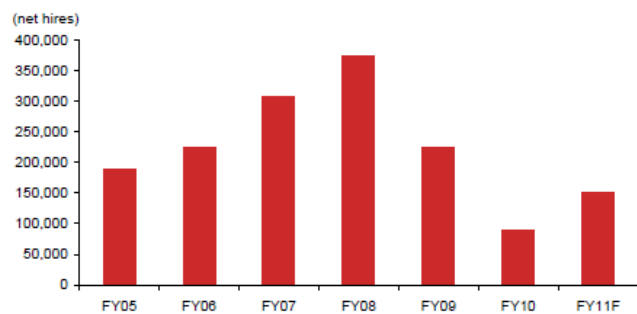
Leasing demand set to improve ...

The office space segment has become the new hope for the real estate sector in the past six months as there has been growing evidence of a strengthening economy and an improving corporate environment.

The IT/ITeS sector, which is believed to consume about 60-70% of total office space each year, has also recovered. IT companies are coming up with positive statements on the revenue and hiring front. Large IT players like Infosys have announced hiring of 3000 more people for the current year whilst Cognizant has announced 7100 net additions following 10400 people which they added last quarter. The positive momentum on the deal front with large contracts and increased business activity is driving growth in hiring and expansion plans of these IT companies.

With revenue growth in the industry picking up again, hiring is expected to move up. Infosys and TCS have said that they plan to hire 30,000 people each in FY11. Industry body, Nasscom, projects net hiring at 150,000 people for FY11F and this on a thumb rule figure of 100 sqft per person could create demand for 15mn sqft of office space from the IT/ITeS industry. Nasscom is hopeful that this hiring figure will move up as the year progresses.

Net hiring figures for IT/ITeS industry set to move up



Source: Nasscom

With the improving economy and a better environment for the IT/ITeS industry, corporates are expected to expand and hence expect leasing to improve from the CY09 level of 23mn sqft to about 35mn sqft in CY10/FY11. The evidence shows that leasing continually improved on a q-q basis in CY09. Most of the new demand is coming from the absorption of current available supply, rather than pre-commitments for future supply. In fact, across CY09, pre-commitments have been hit the most, suggesting that corporates were unsure of their future requirements while probably realising that rentals are unlikely to move up too much from current levels.

Section III – Yatra Portfolio

Yatra is proactively working to ensure that the portfolio is in tune with the changing needs of the current market. The objectives of the company and the fund manager have been to preserve value through the downturn and position the portfolio for the present markets. Two of the key changes that have come about by this exercise are- first the transition of the portfolio from a retail led to a residential led portfolio, which is self liquidating in nature, and second, the restructuring of development planning and construction to ensure minimal amounts of debt are drawn down and that none of the projects are burdened with debt which they cannot service.

•Portfolio Snapshot

Project Name	Asset Class	Location	Partner	Equity Committed € mn	Equity Stake	Land Acquisition	Planning Approvals	Pre - Construction Activities	Construction Status	Leasing/ Sales Status
Residential Project, Pune	Resi led Mixed Use	Pune	Kolte Patil	15.88	49.00%	●	◐	◑	◒	◓
Market City Retail, Pune	Retail led Mixed Use	Pune	Phoenix Mills	17.05	24.00%	●	●	●	◐	◑
Market City Hospitality, Pune	Hospitality	Pune	Phoenix Mills	4.58	20.00%	●	●	●	◐	n/a
The Phoenix Mills Ltd	Listed Entity Level	Mumbai	Phoenix Mills	3.73	0.44%	n/a	n/a	n/a	n/a	n/a
Nashik City Centre, Nashik	Retail	Nashik	Sarda Group	10.42	50.00%	●	●	●	●	◐
Treasure Market City, Indore	Retail led Mixed Use	Indore	EWDPL	11.08	29.30%	●	●	●	◐	◑
Treasure City, Bijalpur	Resi led Mixed Use	Indore	EWDPL	7.71	40.00%	●	◐	◑	◒	◓
Phoenix United Mall, Agra	To be finalised	Agra	Big Apple	4.04	28.00%	●	◐	◑	⌚	⌚
Himalaya Mall, Bhavnagar	Resi led Mixed Use	Bhavnagar	Modi Developers	6.43	50.00%	●	●	●	◐	◑
Riverbank Holdings	Resi post equity swap	Kolkata	Hiland Group	20.28	50.00%	●	◐	◑	◒	⌚
Forum IT Parks, Kolkata	Commercial/ IT SEZ	Kolkata	Forum Group	16.88	49.00%	●	●	●	◐	⌚
Market City, Bangalore	Resi	Bangalore	Phoenix Mills	20.04	30.00%	●	◐	◑	⌚	⌚
Market City, Bangalore	Resi	Bangalore	Phoenix Mills	8.03	30.00%	●	◐	◑	⌚	⌚
Saket Engineers	Unisted Entity Level	Hyderabad	Saket Group	6.84	26.05%	n/a	n/a	n/a	n/a	n/a
Taj Gateway, Kolkata	Hospitality	Kolkata	Jalan Group	4.62	40.00%	●	●	●	◐	n/a

● Complete / Almost complete
◐ Advanced stage
⌚ Yet to commence
◑ Significantly complete
◒ Initial stage

Section IV – Yatra Financial position

The capital commitments of Yatra towards the Indian Portfolio Companies as on date is EUR 161.06 mn and the amount disbursed towards these is EUR 156.88 mn. The company has sufficient cash to honour its outstanding capital commitments.

Disbursements during the Quarter

During the Quarter the following disbursements aggregating € 2.5 million were made to the joint venture partners:

Yatra Capital Limited Disbursements made to IPC's during the quarter	
Company	Amt in Eur
Jalan Intercontinental Hotels Private Ltd- Hospitality Project	2,003,705
Saket Engineers Private Ltd – Enterprise level investment	1,715,974

Cash Flow summary for the Quarter

The cash flow summary of the Company for this quarter is below :

Particulars	Amt (Eur mn)
Opening balance as on April 1st, 2010	41.99
Add : Bank interest received during the period	0.60
Total Receipts	42.59
Less : Expenses	0.41
Disbursements	3.72
Closing balance as on June 30th, 2010	38.46