YATRA CAPITAL

Quarterly Report

For the Quarter ended June 2014

As on 1 September, 2014

Section I – Economic & Real Estate Current Status

Global growth moderated more than expected in the first quarter of 2014, from 3.75% in the second half of 2013 to 2.75%. The growth during this period was ~0.5% lower than the forecast in the April 2014 World Economic Outlook (WEO). There were upside surprises to activity, in Japan and in Germany. But in China, domestic demand moderated more than expected. Activity in Russia decelerated sharply as geopolitical tensions further weakened demand. In other emerging market economies, weaker-than-projected growth resulted both from weaker external demand, notably from the United States and China, and, in a number of cases, softer domestic demand with weaker investment growth. Therefore, while leading indicators point to the global recovery regaining strength, on an aggregate basis, growth forecast for 2014 (at 3.4%) has been lowered compared to that predicted in April 2014 (by 0.3%).

In India, the National elections have placed a strong, stable Government at the Centre. The new Government has emphasized growth and decisiveness in the governing structure, and a majority in the lower House would facilitate it to accelerate the pace of policy action and address the growth bottlenecks. The Budget 2014 presented by the new Government has emphasized on infrastructure - roads, smart cities, industrial corridors etc. Clarity on retrospective taxation and on taxation of Foreign Portfolio Investors will allay some of the long standing concerns of foreign investors. The announcement on Real Estate and Infrastructure Investment Trusts may result in a healthy capital recycling. These measures, coupled with a host of other announcements like a move towards having more flexibility in PPP concessions and lowering of area requirement for Real Estate Foreign Direct Investment, are directionally positive for Indian Private Equity.

On the back of improved business sentiment, domestic economic activity appears to be reviving, with incoming data suggesting a firming up of industrial growth and exports. The June round of the Reserve Bank's industrial outlook survey also points to improvement in business expectations in Q2FY2015. Leading indicators of the services sector are mixed, although there are early signs of modest strengthening of corporate sales and business flows. While the initial slow progress of the monsoon raised concerns regarding agricultural production, these have been mitigated, by the pick-up in the monsoon through much of the country in July.

Retail inflation has eased for the second consecutive month in June. Trade deficit has narrowed. And all categories of capital inflows have been buoyant. Against this backdrop, if the recent pick-up in industrial activity is sustained in an environment conducive to the revival of investment, and with ongoing fiscal consolidation releasing resources for private enterprise, GDP growth in India is expected to be ~5.5% for FY2015.

With the uptick in sentiments due to the change in the Government at the Centre, which has renewed hopes of an economic recovery, the real estate sector is on the cusp of a recovery. Though the lack of momentum could be attributed to high interest rates and rising capital values on the demand side, and rising inventory levels, liquidity crunch faced by developers on the supply side, the recent budget policies regarding FDI norms, lending for affordable housing under priority sector, introduction of REITs, etc would provide impetus to the real estate sector.

The Residential segment that was largely resilient during the last year has started to witness increase in unsold inventory. This is likely to put downward pressure on pricing. As a result, the sector saw a significant decrease (26%) in new launches over the last quarter at all-India level. The majority of new supply (70%) catered to mid segment housing. However, lack of demand saw the absorption volumes decreasing by 17.7% q-o-q. In addition, the absorption rate fell to 9.6% q-o-q and was lower by 2.5% on q-o-q basis. The appreciation in average capital values for residential units was 1.5% q-o-q.

In the Office space segment, the sector saw supply rationalization with addition of only 5.5 mn ft^2 compared to 8.4 mn ft^2 last quarter. Majority of this new supply (3.9 mn ft^2) catered to the IT/ITeS sector. The pan India absorption was 7.5 mn ft^2 compared to 5.9 mn ft^2 in the previous quarter. The increase in volumes was due to healthy absorption in all major cities. However, Mumbai and NCR continue to see high vacancy rates (around 22% +) due to supply overhang, whereas Bengaluru and Hyderabad continue to have low vacancy levels (around 10%) due to lack of fresh supply. The rentals have remained stable.

In the Retail sector, supply-demand mismatch exists with high vacancy in Mumbai and NCR-Delhi. This is due to polarization between good and bad malls, with the latter dragging overall occupancy levels. Uncertainty over FDI in multi brand retail has resulted in slowdown in the sector.

The hospitality sector has also been affected by an overall slowdown in the economy. In addition, increase in room supply has affected occupancy levels and ARRs, resulting in 2.5% decrease in Rev PARs during 12M FY2014 compared to the same period last year.

Section II – Economic & Real Estate Outlook

Even though the last quarter saw a change in government at the Centre, which has renewed hopes of an economic recovery, the real estate sector continues to witness dampened sentiments. The lack of momentum could be attributed to high interest rates, rising capital values, low growth prospects of the economy on the demand side. However, the end user demand is steady in established micro-markets, especially in projects undertaken by reputed developers. Whereas supply growth is hindered by rising inventory levels, liquidity crunch faced by developers and limited avenues to raise finance at reasonable rates. Recent budget policies regarding FDI norms, lending for affordable housing under priority sector, introduction of REITs, etc could provide fund raising opportunities to developers.

In the residential sector, Q2CY2014 witnessed low demand and despite reduction in new launches, the unsold inventory has increased across all major cities. The sub-sector will continue to witness limited growth due to high interest rates and increase in prices coupled with below average economy performance. However, IT centric cities would continue to do relatively better due to above average growth prospects of IT sector and services sector.

The office space sector is expected to enter an initial growth phase with signs of growth in the IT/ITeS segment. A supply of 98.5 mn ft^2 is expected during the next three years. Almost 60% of this supply is being developed as IT/ IT SEZ projects. Mumbai and NCR will continue to be the lead cities with supply of 22.4 mn ft^2 and 27.2 mn ft^2 respectively during 2014-16. On the other hand, Bangalore and Chennai together are forecast to add nearly 25.0 mn ft^2. The overall vacancy rate is likely to decrease in the future due to supply rationalization. NCR-Delhi and Mumbai are expected to absorb 17.1 mn ft^2 and 19.6 mn ft^2 respectively, in the same period, while Bangalore and Chennai should together see take-up of 26.3 mn ft^2

In the retail sector, the supply-demand mismatch will continue in the short to medium term, increasing vacancy rate. The rentals continue to be under pressure due to polarization of good quality malls and poor quality malls. In addition, occupiers are gradually moving towards revenue sharing model. Hence, realizations for developers are linked to actual sales, which will continue to be depressed till the overall economic scenario improves. Lack of clarity on FDI in multi-brand retail has further slowed recovery in the segment.

The hospitality industry witnessed softness in demand during 12MFY2014 due to overall slowdown in the economy. In addition, underlying adverse factors like oversupply in key markets continued. Demand may witness some pick up in H2 CY2014, starting from key cities of Delhi and Mumbai due to festival season and improvement in business sentiment, subject to broader economy gaining some momentum. Supply is expected to further grow by double-digits pan India during CY2014.

Section III – Yatra Portfolio

The Board of Yatra Capital along with the Fund Manager continue to be focused on active asset management with an intent to optimise the value, structure and exit timing of the investments.

Project Name	Asset Class	Partner	Equity Committed € million	Equity Stake	Current Status
Residential Project, Bangalore #	Residential	Phoenix Mills	23.06*	30.00%	Construction of five out of nine towers is at an advanced stage. Sale of units is progressing well. Soft launch of Tower 6 and Luxury Tower was done in Q1 FY2015
Batanagar, Kolkata	Residential	Riverbank Developers	20.28	50.00%	Exit contracted
Residential Project, Pune	Residential	Kolte Patil	13.70*	49.00%	Sale and construction of Phase I and II is progressing well. Handover of Phase I has begun
Market City Retail, Pune	Retail Mall	Phoenix Mills	17.05	24.00%	Exit contracted for June 2015
Forum IT SEZ, Kolkata	Office	Forum Group	16.68	49.00%	Exit discussions currently underway
Treasure Market City, Indore	Mixed-use	TWDPL	9.98	27.90%	Lenders have taken over possession of the property and it is under auction. No equity value in sight
City Centre Mall, Nashik	Retail Mall	Sarda Group	6.65	31.89%*	Exit contracted. 36.9% consideration received as first tranche in Q4 FY2014
Saket Engineers, Hyderabad	Enterprise Level	Saket Group	7.36	27.25%	Partially exited in Q1 FY2015
Treasure Town, Bijalpur	Residential	TWDPL	0.94	4.87%*	Exit contracted. 87.7% consideration received in Q3 FY2014
Taj Gateway, Kolkata	Hospitality	Jalan Group	4.64	40.00%	Project has received SARFAESI notice from lenders on August 1, 2014. Property could be auctioned if dues are not settled by October 2014
Market City Residential, Pune	Residential	Phoenix Mills	4.58	20.00%	Construction commenced on one out of two residential towers
Phoenix United Mall, Agra	n/a	Big Apple	4.04	28.00%	Exit contracted

 # Includes two SPVs
**** Partial exit achieved***

Section IV – Yatra Financial position

The net capital commitments of Yatra towards the Indian Portfolio Companies as on 30 June 2014 is EUR 128.96 mn and is fully disbursed.

Disbursements during the Quarter

None

Cash Flow summary for the Quarter

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

Particulars	Amount (Eur mn)
Opening balance as on April 1, 2014	**14.81**
Add : Bank interest received during the period	-
Add : Proceeds from share disposal and share buy back of Portfolio Companies	4.07
Add : Other receipts	0.05
Total	18.93
Less : Expenses	0.63
Disbursements	-
Closing balance as on June 30, 2014	**18.30**