YATRA CAPITAL

Quarterly Report

For the Quarter ended December 2014

As on 31 December, 2014

Section I – Economic & Real Estate Current Status

A key development during the last few months has been the ~55% decline in international crude oil prices since September 2014. This decline has been led by oil supply factors – the decision of the Organization of the Petroleum Exporting Countries (OPEC) to maintain current production levels despite the steady rise in production from non-OPEC producers, especially the United States. The decline in oil prices also stems from the unexpected demand weakness in some major economies. This weaker demand outlook is also reflected in the lower industrial metal prices. Global growth outlook has tempered since the last quarter. This is led by weaker investment outlook in China and the Euro zone and a downward revision in potential growth of commodity exporters, especially in Latin America. However emerging markets are expected to post a robust growth of 4.4% by the World Bank.

Domestic economic activity in India has been gradually strengthening over the past two quarters, early indications of improvements are visible. Weak tax revenue growth has been partially offset by disinvestment of public sector companies. The fall in crude prices will also help. Service sector exhibited the highest growth. Advance indicators of industrial activity, indirect tax collections and non-oil non-gold import growth point to an improvement in the months ahead. Policy initiatives in land acquisition, as well as efforts to unlock mining activity and to widen the space for foreign direct investment in defence, insurance and railways, should create a more conducive setting for industrial revival.

Furthermore, inflationary pressures have been easing. The Reserve Bank of India (RBI) expects that inflation would likely be below 6% by January 2016. In keeping with its commitment to initiate monetary easing as soon as inflationary targets are met, the RBI reduced the policy rates by 25 basis points. The rate cut, coupled with higher business confidence is expected to translate into increased investment activity. The RBI also reduced the Statutory Liquidity Ratio by 50 basis points, providing scope to banks for expanding credit. Conditions congenial for a turnaround are therefore gathering momentum and should enable a pick-up in economic activity over the next few months.

The real estate sector continued to witness mixed trends as in the previous quarter, with the commercial office segment showing increased y-o-y off take, given the improvement in business climate and expected increase in economic growth, especially in the services sector. However, the residential and retail segments continue to underperform in pockets. This lack of momentum could be attributed to lack of demand growth and due to liquidity issues faced by developers which has delayed execution and new launches. To give impetus to the sector, on the supply side, the Government has introduced relaxed land acquisition norms for affordable housing and industrial corridors. Further, to stimulate demand, the RBI has reduced interest rate by 25 bps in January 2015. To address liquidity concerns, the Government is likely to give clarity on taxation related to REIT in the general budget to be held in mid February 2015. The impact of these measures will be witnessed in the coming quarters.

The Residential segment has witnessed a marginal increase (under 1%) in new launches over the last quarter at all-India level. However, the two major markets of NCR and Mumbai saw a decline. Whereas, new launches in Bengaluru increased by 58% q-o-q. The majority of new supply (60%) catered to mid segment housing and is priced under ` 7,000 per ft^2. The absorption volumes improved moderately by 5% q-o-q. This is primarily due to moderate new launches and stable absorption.

In the Office space segment, around 6.5 mn ft^2 of office space became operational in Q4CY2014 compared to 8.9 mn ft^2 in the previous quarter, taking the overall stock to 405.9 mn ft^2. The pan India absorption was 7.5 mn ft^2 compared to 9.3 mn ft^2 in the previous quarter. Though q-o-q volumes have reduced but on an annual basis the absorption was 29.9 mn ft^2 compared to 26.8 mn ft^2 during CY2013. This has also lowered the overall vacancy rate to 17% compared to from 17.5% last quarter.

In the Retail segment, CY2014 saw the addition of 1.3 mn ft^2 of retail space, taking the overall stock to 71.6 mn ft^2. The annual absorption decreased to 1.6 mn ft^2 from 5.1 mn ft^2 during CY2013, largely on account of historically low demand and supply. This could be attributed to uncertainty over FDI in multi brand retail which has resulted in slowdown in the sector.

In the hospitality space, India's supply of rooms in the organized sector has almost tripled to over 70,294 at the end of December 2014 from about 25,000 in 2001. During the year, additional supply of 18,854 rooms were approved comparable to 18,377 approved during CY2013. The demand scenario has remained subdued during the year due to dampened economic scenario. In 2013-14, the occupancy rate of all hotels in India was 58.9%, comparable to 57.8% seen in the 2012-13. This nominal increase is largely on account of reduction in room rates and marketing strategies adopted by hotel operators.

Section II – Economic & Real Estate Outlook

Economic growth in India is expected to accelerate. With a reform focused stable government at the helm, macro-economic sentiment has been upbeat over the past year. Business confidence across the nation has improved. Fall in global commodity prices has helped improve inflation in addition to lowering CAD. The real estate sector continues to witness mixed trends as in the previous quarter, with the commercial office segment showing increased y-o-y offtake, given the improvement in business climate and expected increase in economic growth, especially in the services sector. However, the residential and retail segments continue to underperform in pockets. This lack of momentum could be attributed to reduced purchasing power due to high interest rates and rising capital values, on the demand side. However, the end user demand is steady in established micro-markets, especially in projects undertaken by reputed developers and with adequate construction progress. Whereas supply growth is hindered by rising inventory levels, liquidity crunch faced by developers and limited avenues to raise finance at reasonable rates.

The residential sector is witnessing over supply scenario in certain pockets across product categories as rising inflation and interest rates have reduced affordability for end users. This has resulted in developers delaying new project launches to sustain current sale pricing. Further, the liquidity constraints for developers continues to persist as formal sources of debt funding are limited and the cost of such debt is high. As a result, developers are employing innovative marketing strategies to encourage buyers ranging from freebies to subvention schemes etc.

The commercial real estate sector is highly dependent on the growth prospects of the economic drivers of a city. Bengaluru, Chennai and Pune, the cities primarily dependent on IT, will show moderate to stable performance as IT/ITeS industry continues to grow at an above average pace. Mumbai and NCR markets are more dependent on the performance of BFSI and Non-IT service sectors. A supply of 144 mn ft^2 is expected during 2015-2017. Almost 60% of this supply is being developed as IT/ IT SEZ projects. While NCR-Delhi and Mumbai are expected to absorb 18.7 and 20.9 mn ft^2, respectively, during 2015-17, Bangalore alone is expected to see the take-up of 21.2 mn ft^2. Mumbai and NCR will continue to be the lead cities with supply of 39.2 mn ft^2 and 37.5 mn ft^2 respectively during 2015-17. On the other hand, Bangalore is forecasted to add nearly 30 mn ft^2. At a pan-India level, vacancy rate is forecasted to decline gradually over the medium to longer term and reach a level around 15.8% by end 2017.

In the retail sector, The supply-demand mismatch will continue in the short to medium term, increasing vacancy rate. An absorption of 6.2 mn ft^2 has been forecasted for 2015, coupled with a completion of 8.9 mn ft^2. Vacancy rates are expected to rise in NCR-DL to 24.6% by end 2015, and a marginal drop of 0.7% is expected in Mumbai, thus taking the forecasted 2015 year end vacancy to 20.3%. The rentals will continue to be under pressure due to polarization of good quality malls and poor quality malls. Lack of clarity on FDI in multi-brand retail has further slowed recovery in the segment coupled with competition from e-commerce.

The hospitality industry witnessed softness in demand during CY2014 due to overall slowdown in the economy. Growth in room demand is, however, likely to pick up marginally from H2 CY2015 onwards. Moreover, supply additions are also expected to moderate leading to an increase in RevPARs between 2015 and 2016.

Section III – Yatra Portfolio

The Board of Yatra Capital along with the Fund Manager continues to be focused on active asset management with an intent to optimise the value, structure and exit timing of the investments. The following table pertains to the investments, where exit arrangements are yet to be negotiated :

Project Name	Asset Class	Partner	Equity Committed (€ million)	Equity Stake	Current Status
Residential Project, Pune	Residential	Kolte Patil	13.70*	49.00%	Sale and construction of Phase I & II is progressing well. Handover of completed residential and commercial buildings in Phase I has begun. Cashflows of the project remain healthy
Saket Engineers, Hyderabad	Enterprise Level	Saket Group	7.36*	27.25%	Partially exited in Q1 FY2015. Company's liquidity is under stress
Market City Residential, Pune	Residential	Phoenix Mills	4.58	20.00%	Construction commenced on one out of two residential towers. Both the towers were officially launched for sale in Q4 FY2014. Sales is slower than management expectation
Forum IT SEZ, Kolkata	Office	Forum Group	16.68	49.00%	Commercial terms for exit is finalised and documentation is currently underway. Significant capital erosion expected
Taj Gateway, Kolkata	Hospitality	Jalan Group	4.64	40.00%	Project has received SARFAESI notice from its lender on August 1, 2014. Property could be auctioned anytime as the Company continues to be in default. No progress towards sale of the hotel despite aggressive efforts
Treasure Market City, Indore	Mixed-use	TWDPL	9.98	28.90%	Lenders have taken over the possession of the property and it is under auction. No equity value left
Total			**56.94**		

** Patial exit achieved*

Section IV – Yatra Financial position

The net capital commitments of Yatra towards the Indian Portfolio Companies as on 31 December 2014 is EUR 111.70 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 October 1, 2014	**22.14**
Add : Bank interest received during the period	-
Add : Proceeds from share disposal and share buy back of Portfolio Companies	7.27
Add : Other receipts	-
Total	29.41
Less : Expenses	0.79
III round of redemption of shares	20.00
Closing balance as on December 31, 2014	**8.62**