

YATRA CAPITAL

Quarterly Report

For the Quarter ended December 2011

As on January 31st 2012

Section I – Economic & Real Estate Current Status

Since the last quarter there have been significant changes in the global scenario. While on one hand concerns over the sustainability of the debt issues in the euro region have intensified while on the other, there are modest signs of improvement in the US. In the emerging and developing economies growth has been moderating, reflecting the sluggishness in the advanced economies and the impact of monetary tightening. Overall, notwithstanding the signs of recovery in the US, global growth prospects have weakened. Beginning the fourth week of December 2011, increase in international crude oil prices has been driven largely by geo-political uncertainties. In contrast weak global economic activity has led to some softening of non-oil commodity prices. The World Bank's index of non-energy prices declined by 11 per cent (y-o-y) in December 2011; however this weakening in the prices was negated by the weaker rupee.

Growth in India has also moderated. In particular, investment activity has decelerated sharply, reflecting heightened global uncertainty and domestic fiscal, monetary, political and administrative conditions. Inflation is beginning to moderate as projected, despite the significant depreciation of the rupee. GDP growth moderated from 7.7 per cent in Q1 (April-June) to 6.9 per cent in Q2 (July-September) of 2011-12. This was mainly due to deceleration in industrial growth from 6.7 per cent to 2.8 per cent. However, the services sector held up relatively well. Consequently, GDP growth during H1 (April-September) of 2011-12 slowed to 7.3 per cent from 8.6 per cent in H1 of last year. The index of industrial production (IIP) remained volatile. The y-o-y industrial growth recovered from (-) 4.7 per cent in October to 5.9 per cent in November. Over the year, however, growth in industrial production slowed down to 3.8 per cent during April-November 2011 from 8.4 per cent a year ago.

The higher than expected deceleration in food inflation resulted in it coming down for the first time in 6 years and it is expected that inflation is likely to decelerate further to 7 per cent by March 2012. While inflationary pressures from food prices have abated, fuel prices continue to be an area of concern. On the positive front, the Reserve Bank of India signaled an end to the monetary tightening but also conveyed that it may not be in a hurry to cut interest rates. In its policy announcement the RBI has announced a cut in the CRR rate to infuse liquidity into the system whilst maintaining a cautious stance towards interest cuts until a sustained signal of slowdown in inflation.

The high interest rates have impacted the real estate markets as well, leading to weak sentiment amongst buyers and developers. While sales have fallen across most of the larger markets in CY2011 interest from consumers continues to be strong. It is expected that sales should be back once mortgage rates start moving southwards. Retail continues to be steady on an operational front and well located malls locations continuing to do well as opposed to malls located in the peripheral and suburban markets. While the decision to open up multi - brand retail to foreign investment was reversed, the Government has allowed 100% Foreign Investment for single brand retail which is expected to create additional demand for space. Office markets have performed well in CY2011 with absorption levels back to their pre Global Financial Crisis levels across the top 7 cities. Rentals however, continue to be subdued and below the peaks of 2008. Increased construction costs and skilled labor shortages continue to be an area of concern. There has been an escalation in the prices of labor (30%), steel (20%) and cement (15%) over the past twelve months the impact of which has been felt by projects under construction. While steel prices have started to correct in the light of reduced global demand, the same has yet to benefit the Indian markets given the weak rupee.

Section II – Economic & Real Estate Outlook

The IMF also cut its economic growth projection for India to 7.4 per cent in calendar year 2011 from the earlier 7.8 per cent and by 0.5 per cent to 7 per cent for calendar 2012. In its latest World Economic Outlook, it said it expected weaker global economic growth in both calendar 2011 and 2012 due to expectations of the euro area economy going into mild recession this year.

The key emerging markets of India and China though faced with a potential slowdown in their economies on the back of the overall slowdown in the global economy will continue to be amongst the fastest growing global economies. Domestic consumption and a hope of global recovery are expected to be the key drivers for India & China to continue to be the growth engines for the global economy.

In India, though growth has slowed down it is expected that as liquidity improves on the back of monetary easing and interest rate cuts in the second half of 2012 growth will be revitalized. Further it is expected that improved liquidity will also push investments into critical sectors of manufacturing and infrastructure and act as catalyst for faster than expected growth. On the macro economic front the key events to monitor will be the state level elections towards the end of the quarter, the budget, expected slowdown in inflation and the resultant rate cuts which will provide traction in the growth process.

The real estate sector still continues to be plagued by headwinds in the form of high interest rates and slowdown in the economy. As interest rates are brought down in the medium term and as developers start the process of rationalizing prices to improve cash flows, the strong demand which has been waiting on the sidelines will start to convert demand into absorption. The sector is expected to see short term stress but in the long term the fundamentals continue to be in place to allow for a recovery.

Commercial real estate is looking more positive as it had corrected significantly during the downturn. Leasing has increased as well as inquiry on leasing. IT/ITES sector has renewed its hiring as well as is looking at taking up more space in key Tier I and II cities

The retail sector recently received a boost from the government when 100% FDI was allowed in single brand retail. The proposal for allowing FDI in multi brand retail has been put on hold due to lack of political consensus post the completion of state level elections and with government working towards consensus it is expected that there will be positive traction on that front. This along with the domestic consumption growth should be the prime drivers of growth for this underperforming sector.

Section III – Yatra Portfolio

The Yatra Board along with the Fund manager and the Investment Sub Committee 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	Partner	Equity Committed € mn	Equity Stake	Land Acquisition	Planning Approvals	Pre - Construction Activities	Construction Status	Leasing/ Sales Status
Market City, Bangalore *	Residential	Phoenix Mills	28.07	30.00%	●	◐	◑	🕒	🕒
Batanagar, Kolkata	Residential	Hiland Group	20.28	50.00%	●	◐	◑	◐	◐
Market City Retail, Pune	Retail Mall	Phoenix Mills	17.05	24.00%	●	●	●	●	◐
Forum IT SEZ, Kolkata	Office	Forum Group	16.68	49.00%	●	●	●	◐	🕒
Residential Project, Pune	Residential	Kolte Patil	15.88	49.00%	●	◐	◑	◐	◐
Treasure Market City, Indore	Mixed-use	TWDPL	10.97	28.90%	●	●	●	◐	◐
Nashik City Centre, Nashik	Retail Mall	Sarda Group	10.42	50.00%	●	●	●	●	◐
Saket Engineers Private Ltd	Enterprise Level	Saket Group	10.13	26.05%	n/a	n/a	n/a	n/a	n/a
Treasure City, Bijalpur	Residential	TWDPL	7.71	40.00%	●	◐	●	◐	◐
Mixed Use, Bhavnagar	Retail Mall	Modi Developers	6.27	50.00%	●	●	●	◐	◐
Taj Gateway, Kolkata	Hospitality	Jalan Group	4.64	40.00%	●	●	●	◐	n/a
Market City Hospitality, Pune	Hospitality	Phoenix Mills	4.58	20.00%	●	●	●	◐	n/a
Phoenix United Mall, Agra	Retail Mall	Big Apple	4.04	28.00%	●	n/a	n/a	n/a	n/a
The Phoenix Mills	Enterprise Level	Phoenix Mills	3.73	0.44%	n/a	n/a	n/a	n/a	n/a

* includes two SPVs

● 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 160.45 mn and the amount disbursed towards these is EUR 158.45 mn. The company has sufficient cash to honour its outstanding capital commitments.

Disbursements during the Quarter

The disbursement in the September 11-December 11 quarter was Euro 780,000 being the tranche 4 CCD subscription paid to Saket Engineers Private Limited.

Cash Flow summary for the Quarter

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

Particulars	Amount (Eur mn)
Opening balance as on October 1, 2011	30.72
Add : Bank interest and CCD interest received during the period	0.45
Add : Dividend received	0.02
Total Receipts	31.19
Less : Expenses	0.63
Disbursements	0.78
Closing balance as on December 31, 2011	29.78