

# YATRA CAPITAL

## Quarterly Report

October 2010 to December 2010

---

As on January 11, 2011

---

## Section I – Economic Outlook

### 2.1. Macro Economic Policy

#### GDP growth hits 8.9% in Q2

The new gross domestic product (GDP) numbers released by the government on Tuesday show that the Indian economy continues to maintain its growth momentum despite a tough global environment. At 8.9% for a second quarter in a row, the economy is growing near its trend rate. Fears of overheating seem to be overdone right now despite..... high inflation and rising asset prices. The Indian economy seems set to close the year with economic growth of between 8.5% and 9%.

Despite the encouraging overall picture, there are two underlying trends that deserve closer attention. First, the revival in farm output this summer from its drought-induced trough in 2009 has pushed up GDP in the second quarter. Farm output has grown at the fastest rate in 11 quarters. Maintaining this growth rate is unlikely given the long-term stagnation in agricultural productivity. A lot will depend on non-farm output trends after the winter crop is harvested.

Meanwhile, manufacturing growth has slowed and has also been volatile in recent months. There have been problems with the way the index of industrial production is calculated, but for now that is the best indicator we have. The significant swings in factory output every month have been a worry for some time now. Indian manufacturing growth has slipped from 13% in the first quarter to 9.8% in the second quarter. This is something to keep a close watch on.

Second, the GDP numbers show that private sector demand continues to pick up. A huge increase in government spending had supported economic activity in the crisis months of late 2008 and early 2009, but the private sector has now stepped in to pick up the slack in domestic demand that could have arisen as the government tries to cut its fiscal deficit.

Yet, private consumer demand seems to be doing better than private investment. Data on dispatches of cement bags, new telecom subscribers, car sales and airline bookings suggest that consumer spending continues to be robust. The revival in farm output should help boost rural demand as well.

Economic growth seems to be well balanced at this juncture, with private consumption, government consumption and fixed capital formation growing at close to double-digit levels. Interest rates are close to neutral levels (though the short-term money market is short of cash). Inflation seems to have peaked. These factors could put India in a good position, especially if corporate investment accelerates and the world economy does not serve up another shock.

---

## **India's food inflation rate spikes to 18.32 %**

The 18% YoY surge in food prices for the week ending Dec 25 has resulted in the index for primary articles once again crossing 20%. This spike is largely due to fruits and vegetables, which rose 39%YoY v/s 6.7% last month. (This segment has a weight of ~4% in the WPI.) But what is more worrying is that mounting food prices are not an entirely domestic worry – last week, the FAO Food Price Index which tracks global prices, crossed 2008 highs, fuelled by sugar, cereals and oils. Given extreme weather patterns across the globe commodity price rises could persist in the coming months. Many critical commodities and food products saw a significant spike in prices leading to public anger and resulting in significant negative publicity for the Government.

Further as the price of oil in the international markets increases there is bound to be further inflationary pressure. The Oil Subsidy is one of the significant contributors to the fiscal deficit and the Government is trying to reduce the subsidy by marking fuel prices to market fluctuations.

However as Inflation continues to rise the Government may be forced to moderate the fuel price hikes which pass through eventually to the end user.

## **India posts outperformance vs. The global indices for the second consecutive year.**

2010 was the year of the “E”s. Equity markets across the world delivered positive returns in 2010, even though sovereign issues in Europe caused periods of market volatility. Quantitative easing brought a flood of liquidity to Indian equity markets. Domestic factors also influenced Indian market performance, from the RBI’s Exit to questions on government’s Execution on reforms and the debates on corporate and political Ethics. Despite the uncertainty, backed by strong Earnings, India posted outperformance vs. the global indices for the second consecutive year.

## **What Should Investors expect in 2011**

Indian policy makers have been boosting growth at some risk to macro stability, reflected in high inflation, a widening current account deficit and tight inter-bank liquidity due to low deposit growth. WPI headline inflation and non-food inflation have moderated to 7.5 percent YoY and 7.9 percent YoY in November 2010 from the peaks of 11 percent YoY and 8.9 percent YoY (in April 2010) respectively. Monthly trade deficit narrowed to 7.1 percent of GDP, annualised in November, from the peak of 10.8 percent of GDP, annualised in August 2010.

Inter-bank liquidity should also improve over the next three months as recent aggressive deposit rate hikes will help improve deposit growth. Private sector capex has been accelerating over the last 10 months and it will soon begin to reflect in the form of commissioned capacity. At the same time, monetary tightening — as reflected in the 300 bps rise in short-term rates (91-day T-bill yields) over the

---

last eight months — is beginning to help reduce the above macro stability risks. Overall macro conditions will remain vulnerable over the next 4-5 months. Inflation, while moderating, will remain above the RBI's comfort zone and the current account deficit will also stay relatively high.

Recent optimism in the developed world growth outlook has increased the risk of a potential rise in crude oil prices to € 85/bbl (\$110-120/bbl). Similarly, there is additional risk of pass through of agricultural and commodity prices.

### **Will FII's continue to Invest after a record year?**

India emerged a preferred destination among emerging markets for foreign institutional investors (FIIs) who pumped in a record € 21.95 bn (\$28.4 billion) (net of sales) into Indian equities, attracted by high growth and robust corporate earnings, but analysts remain divided on whether the country will continue to attract a similar quantum of foreign money in 2011. FII inflows into bond markets also touched a record high of € 7.73 bn (\$10 billion) as low yields in Western markets prompted investors to look for emerging pastures. An estimated growth rate of 8.5% that is largely domestic-demand driven and an estimated 20% growth in corporate earnings have helped India corner a disproportionately larger share of global fund flows in a world marked by macroeconomic uncertainty.

Buoyed by the highest level of inflows since India opened its doors to foreign investors in 1993, the broader market rose by 15.6% till 22 December this calendar year outperforming most of its emerging market peers including China and Brazil, where the markets declined in 2010. According to global fund database Emerging Portfolio Fund Research Inc., Indian equities received 15% of the total fund flow into Asian emerging market equities in the current year against a weightage of 11% in the MSCI Emerging Asia Index (which should mean that it should, in ideal conditions, receive 11%). While the Indian growth story is set to attract more fund flows, analysts are divided over whether the country will be able to surpass the record inflows seen this year. Some say that 2011 might see a moderation in flows with high valuations and inflationary risks making Indian equities look less appealing compared with its peers.

The previous highest inflow was seen in 2007, when FIIs bought € 13.6 bn (\$17.8 billion) worth of equities, net of sales. There are four key factors that might cause some moderation in flows: a higher allocation to developed market equities; rotation within emerging markets to the underperformers of this year's rally such as Korea and Taiwan; the resurfacing of debt problems in Europe, contributing to risk aversion and causing outflows from emerging markets; and disappointing earnings though that seems unlikely unless domestic demand slows or commodity prices spike.

The Market analysts see the shift to developed market equities from bonds as a sign of rising risk appetite and an indicator of better things for India and China. As long as corporate earnings are close to 25% and economic growth is in place, I think we should see more foreign inflows in the year ahead. The key risk to earnings comes from rising commodity prices which would exacerbate inflationary pressures,

---

raising the prospects of interest rate hikes by the central bank and pushing up costs for firms. .... The earnings growth estimate of 20% plus for Sensex companies remains nearly unchanged with the consensus earnings per share estimate at ₹ 18 (Rs.1,055) as per Bloomberg data for fiscal 2010. The Sensex currently trades at 19 times its forward earnings for fiscal 2010 and at a 40% premium to the MSCI Emerging Markets Index. With valuations at a premium, any disappointment in earnings or even rise in the political risk perception could trigger a sell-off, as was evident during the recent correction.

## **Section II – Real Estate Outlook**

### **Indian Listed Developers at 50% discount to NAV, suggests worst priced in**

The Indian real estate sector has significantly underperformed the Sensex index by 30% over the past three months, with most property stocks being high beta down 20%-50% over the past three months. This was due to a slew of negative news/events such as: 1) a seasonally weak Q210, following the RBI raising the risk weightage and provisioning for mortgages; 2) controversy from 2G licence allottees and likely penalties, two being realty group companies; 3) a likely involvement of realty players in the loan syndication scam; 4) the risk of approval delays/cancellation of projects in Mumbai due to a change in the chief minister; and 5) a fluid political situation due to ongoing fraud investigations. The market has overreacted as core fundamentals remain intact. With valuations at a 50% discount to est. NAV and close to levels during the credit crisis, analysts believe the worst has been priced in.

### **Sectoral Outlook: Residential**

#### **Residential outlook healthy, albeit with a likely near-term slowdown**

Given macroeconomic catalysts such as: 1) an average GDP growth forecast of 7.5%-8%, which would likely lead to higher asset prices; 2) favourable demographics; 3) an increased share of savings (around 20% of income) having a high probability of being invested in property; and 4) progress on the infrastructure projects, analysts expect key residential drivers to remain intact for most Tier I and II cities. The residential sector continued its strong growth trajectory in 2010, which it has been trading from the second half of 2009. Residential property rates have attained the previous peaks of 2008 across several markets. The year also saw an increased number of launches in the premium segment, mostly in the Mumbai market. However, sale velocities of houses have dropped by end of the year and further hardening of interest rates along with high inflationary pressure can be a dampener for residential sales in the coming quarters. Residential property rates are likely to continue their upward trajectory, albeit at a slower pace than 2010. However certain locations that have witnessed rapid increments in price, will not only witness resistance to any further price rise, but also some downward pressure.

Most Analysts expect rapid sale velocities in the affordable segment for projects which are priced at or below market averages. Likely hardening of interest rates, coupled with high inflationary pressures and

---

rising property rates, will impact the purchasing power of home buyers in 2011, which will influence the absorption dynamics of the residential sector.

## **Commercial Office**

### **Strong pick-up in leasing—a key future catalyst**

There have been promising signs of a recovery in the commercial/leasing markets. Growth has been largely driven by: 1) an increased demand for space from the IT/ITeS and banking/financial services sectors; and 2) rentals being at their trough levels across most markets. While oversupply and high vacancy rates of 15%-20% remain an overhang; however actual new supply is becoming rationalised and vacancies are at peak levels given soft rentals. Among the key markets, Mumbai, Gurgaon and Bangalore have witnessed the strongest increase in leasing activity. Meanwhile, other markets such as Chennai, Hyderabad and Pune are showing signs of a pick-up. It is expected that the commercial recovery **will** be led by volume, while rentals should remain soft.

### **The Outlook for Commercial in 2011**


The effect of strengthening absorption of office space in the past 3-4 quarters has already resulted in a stabilisation of rental and capital values in most of the markets. The period from 2Q10 to 3Q11 provides a strategic window of opportunity for both buying and leasing office space, when both rental and capital values are at their cyclical lows. Capital values typically are a leading indicator and signs of strengthening of capital values in selected micro markets have already been witnessed. Several markets which were dormant during 2010 with respect to property rates will register an appreciation in valuations. The prime markets of Mumbai, Delhi and Bangalore are ahead in the property cycle in terms of transactional volumes and should be the first to register rental growth in 2011. However, the oversupplied suburban markets might still feel the pressure of inadequate demand levels and will be late to recover. Adequate volumes of office supply will keep hitting the markets every quarter, keeping the segment interesting for occupiers as well as investors.

### 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.

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	Resi led Mixed Use	Pune	Kolte Patil	15.88	49.00%	●	☾	☾	☾	☾
Market City Retail	Retail led Mixed Use	Pune	Phoenix Mills	17.05	24.00%	●	●	●	●	☾
Market City Hospitality	Hospitality	Pune	Phoenix Mills	4.58	20.00%	●	●	●	☾	n/a
The Phoenix Mills Ltd	Listed Entity	Mumbai	Phoenix Mills	3.73	0.44%	n/a	n/a	n/a	n/a	n/a
Nashik City Centre	Retail	Nashik	Sarda Group	10.42	50.00%	●	●	●	●	☾
Treasure Market City	Retail led Mixed Use	Indore	EWDPL	11.10	29.30%	●	●	●	☾	☾
Treasure City	Resi led Mixed Use	Indore	EWDPL	7.71	40.00%	●	☾	☾	☾	☾
Phoenix United Mall	To be finalised	Agra	Big Apple	4.04	28.00%	●	n/a	n/a	n/a	n/a
Mixed Use	Resi led Mixed Use	Bhavnagar	Modi Developers	6.45	50.00%	●	●	●	☾	☾
Riverbank Holdings	Resi	Kolkata	Hiland Group	20.28	50.00%	●	☾	☾	☾	☾
Forum IT Parks	Commercial/IT SEZ	Kolkata	Forum Group	16.68	49.00%	●	●	●	☾	⌚
Market City <sup>2</sup>	Resi	Bangalore	Phoenix Mills	28.07	30.00%	●	☾	☾	⌚	⌚
Saket Engineers	Unisted Entity	Hyderabad	Saket Group	10.24	26.05%	n/a	n/a	n/a	n/a	n/a
Taj Gateway	Hospitality	Kolkata	Jalan Group	4.64	40.00%	●	☾	●	☾	n/a

<sup>1</sup> 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 160.87 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 there were no disbursements made.

### Cash Flow summary for the Quarter

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

Particulars	Amt (Eur mn)
<b>Opening balance as on October 1<sup>st</sup>, 2010</b>	<b>36.25</b>
Add : Bank interest received during the	0.16
Add : Dividends received during the period	0.02
Total Receipts	36.43
Less : Expenses	0.26
Disbursements	0
<b>Closing balance as on December 30<sup>th</sup>, 2010</b>	<b>36.17</b>