



Mahindra Gesco



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MAHINDRA GESCO DEVELOPERS LIMITED

4th Annual Report 2002-2003

Contents

Directors' Report	5
Management Discussions and Analysis Report	8
Corporate Governance Report	11
Auditors' Report	17
Accounts	20
Statement pursuant to Section 212	42
Consolidated Audit Report & Accounts	43



MAHINDRA GESCO DEVELOPERS LTD.

Board of Directors

Mr Sudhir J Mulji	Chairman
Mr Arun K Nanda	Vice-Chairman
Mr Ghanshyam S Sheth	Vice-Chairman
Mr Rusi N Sethna	
Mr Soli K Cooper	
Mr Uday Y Phadke	
Mr Hemant Luthra	
Mr Kashyap K Vaidya	
Mr Suvir R Ahuja	Managing Director

Vice President & Company Secretary

Mr Y Hari Hara Subramaniam

Auditors

Kalyaniwalla & Mistry	Chartered Accountants
B K Khare & Co.	Chartered Accountants

Bankers

UTI Bank Limited
ING Vyasa Bank Limited
Citibank N.A.

Registered Office

Mahindra Towers, 5th floor, Road No. 13,
Worli, Mumbai – 400018.

NOTICE

NOTICE is hereby given that the Fourth Annual General Meeting of MAHINDRA GESCO DEVELOPERS LIMITED will be held at Y.B.Chavan Centre, Gen. Jagannath Bhosale Marg, Next to Sachivalaya Gymkhana, Mumbai 400 021, on Thursday, 31st July, 2003 at 3.00 p.m. to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2003 and the Profit and Loss Account for the year ended on that date together with the Auditors' and Directors' Reports thereon.
2. To appoint a Director in place of Mr. Arun Kumar Nanda, who retires by rotation and, being eligible, offers himself for re-appointment.
3. To note the retirement by rotation of Mr. Kashyap Vaidya, Director. Mr. Vaidya has expressed his desire not to seek re-election. It is not intended to fill the vacancy caused by the retirement of Mr. Vaidya.
4. To consider, and if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution :

"RESOLVED THAT Messrs Kalyaniwalla & Mistry and Messrs B K Khare & Co. be reappointed Joint Auditors of the Company to hold office until the conclusion of the next Annual General Meeting on such remuneration as may be mutually agreed between the Board of Directors and the Auditors."

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
2. The instrument appointing a Proxy must be deposited with the Company at its Registered Office not less than 48 hours before the time for holding the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from Friday, 25th July, 2003 to Thursday, 31st July, 2003 (both days inclusive).
4. A member desirous of getting any information on the accounts or operations of the Company is requested to

forward his / her query to the Company at least seven working days prior to the meeting, so that the required information can be made available at the meeting.

5. Shareholders who have not encashed the dividend warrants so far are requested to make their claim to Messrs. Sharepro Services.
6. Members are requested to notify immediately any change in their address to the Registrars and in case their shares are held in dematerialised form, this information should be sent to their respective Depository Participants.
7. In all correspondence with the Company, members are requested to quote their folio numbers and in case their shares are held in dematerialised form, they must quote their client ID Number and their DP ID Number.
8. Members can avail of the facility of nomination in respect of shares held by them pursuant to the amendment to the Companies Act, 1956. Members desiring to avail of this facility may send their nomination in the prescribed Form No. 2b duly filled in to the Company's Registrar & Transfer Agents.
9. In terms of the approval granted by the Central Government, the accounts etc., of Mahindra Infrastructure Developers Limited, the Company's subsidiary, are not required to be attached with the Balance Sheet of the parent company. These documents will be submitted on request to any Member wishing to have a copy, on receipt of such request by the Company Secretary at the Registered Office of the Company.

By Order of the Board of Directors

Y. Hari Hara Subramaniam
Vice President & Company Secretary

Registered Office :
Mahindra Towers, 5th floor, Road No. 13,
Worli, Mumbai - 400018.

18th June, 2003

Directors' Report to the Members

Your Directors have pleasure in presenting the fourth Annual Report and Audited Accounts of the Company for the year ended 31st March, 2003.

FINANCIAL RESULTS

	(Rupees in lakhs)	
	2003	2002
Income	8960.88	19113.82
Profit before Depreciation, Interest, extraordinary items and taxation	3354.71	5190.29
Depreciation	(539.91)	(629.13)
Profit before Interest, extraordinary items and taxation	2814.80	4561.16
Interest	(2435.20)	(4057.10)
Profit before extraordinary items and taxation	379.60	504.06
Extraordinary items (net)	169.11	—
Profit before taxation	548.71	504.06
Provision for taxation for the year:		
Current Tax	(58.60)	(45.00)
Deferred Tax	(259.58)	(201.79)
Profit for the year after taxation	230.53	257.27
Balance of Profit for earlier years	280.50	280.50
Transferred from General Reserve	—	1215.60
Transfer from Debenture Redemption Reserve	257.27	—
Profit available for appropriation	768.30	1753.37
Transfer to Debenture Redemption Reserve	—	(257.27)
Proposed Dividend:		
Preference Dividend	—	(905.36)
Equity Dividend	—	(310.24)
Balance carried forward	768.30	280.50

No dividend has been recommended for the year under review so as to conserve the resources of the Company.

Operations

The Real Estate sector in India today is witness to a wide spectrum of changes that is making real estate development, particularly in the residential segment, an area with tremendous potential. Recent policy announcements by the Government, the continuation of fiscal incentives, reduction in interest rates and the ongoing reforms being proposed, that will have a bearing on construction activity, are expected to be the catalysts that will drive real estate development in the near future.

Your Company continues to operate in the business of property development and running of commercial complexes. For the year ended 31st March, 2003, the Company has posted a profit before tax of Rs. 548.71 lakhs as against Rs. 504.06 lakhs in the preceding year.

The Management and Discussion Analysis Report discusses the operations of the Company in detail and forms part of this Annual Report.

Subsidiary Companies

The Statement pursuant to section 212 of the Companies Act, 1956, containing details of the Company's subsidiary, Mahindra Infrastructure Developers Limited, is attached.

MAHINDRA GESCO DEVELOPERS LTD.
(Formerly GESCO Corporation Limited)

The Consolidated Financial Statements of the Company and its subsidiary, prepared in accordance with Accounting Standard 21 prescribed by the Institute of Chartered Accountants of India, form part of the Annual Report and Accounts.

The Company will be making an application to the Central Government seeking exemption from attaching the accounts, etc., of its subsidiary, Mahindra Infrastructure Developers Limited, with the Balance Sheet of the parent company. If, in terms of the approval granted by the Central Government, the accounts, etc., of Mahindra Infrastructure Developers Limited are not required to be attached with the Balance Sheet of the parent company, these documents will be submitted on request to any member wishing to have a copy, on receipt of such request by the Company Secretary at the Registered Office of the Company.

Corporate Governance

As per the amended Listing Agreements with the Stock Exchanges, the Company has complied with the requirements of Corporate Governance. A report on Corporate Governance is attached to this report.

Directors' Responsibility Statement

Pursuant to section 217(2AA) of the Companies Act, 1956, your Directors, based on the representations received from the Operating Management, and after due enquiry, confirm that :

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- ii) they have, in the selection of the accounting policies, consulted the Statutory Auditors and, these have been applied consistently and reasonable and prudent judgements and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2003 and of the profit of the Company for the year ended on that date;
- iii) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) the annual accounts have been prepared on a going concern basis.

Directors

Mr. Arun Kumar Nanda retires by rotation and, being eligible, offers himself for re-appointment as Director.

Mr. Kashyap Vaidya, who also retires by rotation, does not wish to seek re-election at the forthcoming Annual General Meeting of the Company. Your Directors place on record their

sincere appreciation of the valuable services rendered by Mr. Vaidya as Director of the Company.

Auditors

Messrs. Kalyaniwalla & Mistry, Chartered Accountants and Messrs B. K. Khare & Co., Chartered Accountants, retire as Auditors of the Company and have given their consent for re-appointment. The shareholders will be required to elect auditors for the current year and fix their remuneration. As required under the provisions of section 224 of the Companies Act, 1956, the Company has obtained a written certificate from the above Auditors to the effect that their appointments, if made, would be in conformity with the limits specified in the said section.

Change of Name & Shifting of Registered Office

As approved by the members at the last Annual General Meeting, the Company's name has been changed from GESCO Corporation Limited to Mahindra GESCO Developers Limited effective 24th December, 2002, after obtaining requisite approvals.

The Company has also shifted its registered office from 8th floor, Centre I, World Trade Centre to 5th floor, Mahindra Towers, Road No. 13, Worli, Mumbai 400 018 with effect from 5th November, 2002.

Deposits and Loans / Advances

The Company has not accepted any deposits from the public or its employees during the year under review.

The particulars of loans/advances and investment in its own shares by listed companies, their subsidiaries, associates, etc., required to be disclosed in the annual accounts of the Company pursuant to Clause 32 of the Listing Agreement with the Company, and pursuant to Clause 32 of the Listing Agreement with the parent company, Mahindra & Mahindra Limited, are furnished separately.

Particulars of Employees

None of the employees of the Company were in receipt of remuneration of not less than Rs. 24,00,000 during the year ended 31st March, 2003 or not less than Rs.2,00,000 per month during any part of the said year.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo

In view of the nature of activities which are being carried on by the Company, Rules 2A and 2B of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, concerning conservation of energy and technology absorption respectively, are not applicable to the Company.

There were no foreign exchange earnings during the year under review. Details of foreign exchange outgo are furnished in the Notes on Accounts

Acknowledgements

The Directors would like to thank all the clients of the Company for the unstinted support received from them during the year.

The Directors would also like to place on record their sincere appreciation for all the support received from Municipal Authorities and other local development authorities during the year under review.

The Directors would also like to place on record their appreciation for the dedicated efforts and services put in by the employees of the Company.

By Order of the Board of Directors

A. K. Nanda
Vice-Chairman

Suvir Ahuja
Managing Director

Mumbai, 29th April, 2003

Particulars of loans/advances and investment in its own shares by listed companies, their subsidiaries, associates, etc., required to be disclosed in the annual accounts of the company pursuant to Clause 32 of the Listing Agreement with the Company, and pursuant to Clause 32 of the Listing Agreement with the parent company, Mahindra & Mahindra Limited

Loans and advances in the nature of loans to firms/companies in which directors are interested:

Name of the Company	Balance as on 31st March, 2003 Rs.	Maximum outstanding during the year Rs.
Mahindra Holding & Finance Limited	37,400,000	115,000,000
Mahindra Engineering & Chemical Products Ltd	121,239,668	135,376,106
Mahindra Industrial Park Limited	319,212,372	319,212,372

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Management Discussion and Analysis Report

The Management of your Company is pleased to present this report covering the activities of the Company during the year 2002-2003.

Overall Review:

The Company continues to maintain its dominant position as a corporate developer with a strong customer focus. The customer's faith in the brand "Mahindra Gesco" is illustrated by the success achieved by your Company in its residential projects at Central Park, Gurgaon and the launch of "C" wing in Great Eastern Gardens, Kanjur Marg, and Mahindra Gardens, Goregaon, both in Mumbai.

The company's revenue stream is built of three areas of activities :

- a) Operation of commercial complexes
- b) Project Development : either through Joint Ventures or through Project Management
- c) Business Center Operations

The year closed with a revenue of Rs.89.61 Crores. The operation of commercial complexes and Project Development generated revenues are in line with the expectations. There was a marginal shortfall in Business Centre revenue but as this constitutes a very small part of the Company's activities, the impact on Company's overall performance is negligible.

Business Environment

The business trends and outlook in the cities, the Company operates in, is reflected below :

Mumbai :

The Mumbai commercial property market is undergoing a shift in terms of preference from South Mumbai to the Central and Western Suburbs. As a result, suburbs like Bandra, Andheri, Goregaon, Malad, Powai, Mulund, Kandivli, etc. are becoming more sought after locations for the residential market.

The key reasons for the shift are :

- (1) Improvements in infrastructure in the suburbs, increased commercial activity and quicker access with the construction of flyovers and internal access roads;
- (2) Customers preferring to stay in complexes offering amenities like garden, swimming pool, clubhouse, etc.

This shift has also led to a large number of shopping malls, multiplexes, etc coming up in suburbs like Andheri, Mulund, Goregaon, etc.

On the whole, the residential market has firmed up in Mumbai during the last year, and it is expected that this trend will

continue. Affordable houses for middle income group in the price range of Rs.10 to 35 lacs are easily available in the suburbs. The attractive financial options available by way of housing loans have contributed significantly to this shift. Amendment to the Maharashtra Rent Control Act has also helped in improving the demand.

Pune

The growth in suburbs of Pune has been very significant and many new projects have come up in the last three years. With the expressway fully operational between Pune and Mumbai, the development in and around Pune is likely to grow. The rates for residential properties have remained steady except in some suburbs where they have improved marginally.

Gurgaon

The commercial activity is still on the rise in Gurgaon with the major developers planning to develop large IT enabled service complexes, amusement parks, shopping malls, multiplexes, etc. Four new shopping malls have opened during the year and two more are expected to open during the current year. This is clearly giving rise to a spurt in the residential activity, and many new projects are expected to commence.

Infrastructure has also improved over the last two years with roads getting wider, water situation improving, more schools opening up, etc. Efforts are on by the Government to improve the power situation. The work on the four-lane expressway from Delhi Airport has also started and this will ease the traffic movement to Gurgaon.

Operations Review

The operations of your company are based out of three locations at present - Mumbai, Pune and Gurgaon. A new project is likely to start in Chennai in the next few months.

Your company achieved 10 lacs sq. ft. of sales during the year, all in the residential segment.

The Company has a large pool of experienced engineers and planners, covering the entire range of skills from planning and design to execution, focussed on quality of construction and finishes. The Company has set a consistent track record of completing projects within the time and cost schedules. The systems and procedures are well laid out and documented. The Quality Management System of the Company have been awarded the ISO 9001 Quality Standards certification by the Bureau Veritas Quality International (Holding) S.A. London since February, 1999.

Mumbai

The ongoing projects at Mahindra Park, Ghatkopar and G. E. Links, Goregaon fared well during the year. Both the projects are targeted towards middle income segment and the sales performance has been satisfactory.

"Fairwinds" at Santacruz, a 14,000 sq. ft. premium project was completely sold before completion in December 2002 and handed over to customers by February 2003.

The new phase of G. E. Gardens, at Kanjur Marg was launched in March, 2003, and has received a good response with nearly 50% of the inventory being sold in the first month itself. The launch was preceded by detailed market surveys of the surrounding areas to arrive at the correct positioning and pricing which helped in making it a success.

The work for the new tower at Mahindra Gardens, Goregaon has also begun and the demand is encouraging.

The demand in South Mumbai for high value flats continued to be slow during the major part of the year, but showed signs of improvements in the last quarter of the year.

Pune

The "Nest" project at Pimpri which was launched in September 2001, received a good response throughout the year and nearly 90% was sold by March 2003. The finishes of the sample flat, the attractive pricing and the strong brand were the key success factors.

The sales at Le Mirage, the premium project at Boat Club Road, were a cause of concern in the initial stages but towards completion of the project stage, the sales have improved. In the months of February and March, a substantial number of flats were sold and it is expected that this trend will continue.

GE Plaza, the commercial complex, continues to generate good lease income for the Company.

Gurgaon / Delhi

The Central Park Project at Gurgaon is considered as a major success story in the Real Estate market of North India. Positioned as a premium project, the Company has been able to sell approximately 8.32 lacs sq. ft. in the first year itself, as against the total project of 11.00 lacs sq. ft. planned to be sold over four years. Some of the key success factors are :

- Excellent design specification and finishes as shown in the sample flat
- Attractive pricing
- The "Mahindra Gesco" brand
- Premium positioning and Innovative marketing

The learnings from this success story will be used by your company to benefit in its future projects.

The commercial complexes at G.E. Plaza and G.E. Centre continue to generate good lease income.

The Business Centre operation in Delhi did not fare well during the year with low occupancies during most of the year. The occupancy, however, increased from February 2003 onwards. As mentioned earlier, since this activity constitutes a very small part of the company's operations, the impact on the overall performance was not material.

Tirupur Water Supply & Sewerage Project

This project, India's first private sector project, a 30 year BOT concession for water supply and sewerage collection and treatment for the Tirupur Municipality, its adjacent rural areas and industries, was started in October, 2002.

The project is a 185 mld/day water supply scheme and encompasses, drawing water from the river Cauvery, treating the water and conveying it over 55 kms of pipeline to Tirupur. There is a 410 kms of distribution network and also collection and treatment of sewage in the municipal area. Besides participating through a joint venture with United Utilities in the operation and maintenance contract, the Company is also involved in constructing part of the facilities jointly with Larsen & Toubro Ltd.

Mahindra Infrastructure Developers Ltd. (MIDL)

MIDL has been promoted by your Company for the development of infrastructure projects in select sectors. It is a 80:20 joint venture with International Finance Corporation, Washington (IFC) and has a basket of projects under execution and development. MIDL is actively pursuing privatisation opportunities in water supply projects, waste disposal, container terminals and inter-city bus terminals.

Other activities

The implementation of Mahindra Gesco Excellence Module (MGEM) was well received by the Members of the Management team, and is fast becoming a way of managing business in their respective areas. MGEM has brought in the focus required at every managerial level and has led to better results as the performance areas expected out of each individual are clearly spelled out.

Customer Satisfaction Surveys were conducted in most of the complexes and results shared with the employees. The satisfaction level ranged from 65% to 90% at various projects. It will be the effort of all the employees to improve upon the level of services, such that the Customer Satisfaction Surveys, when conducted in the future, indicate a satisfaction level of atleast 90%.

The Shareholders Agreement between the Company and another co-promoter for the Integrated Technology Park at Mohali, Punjab, was terminated. Based on a review of the commercial and technical viability of the project, it was decided not to pursue the project.

Financial Review

During the current year, the Company has improved its debt equity ratio from 0.76 to 0.65 and also reduced its average cost of borrowings by 150 basis points resulting in substantial savings on interest. The turnover of the Company at Rs. 89.64 cr. is lower than the previous year, which also included a one-time compensation relating to a project management contract.

The Company's efforts to bring down the construction and

other costs continued during the year, resulting in improved operating profit margins.

The profit before taxation of Rs.5.49 cr. is higher by 9% as compared to the profits for the year ended 31st March, 2002.

Internal Control

The Company has adequate system of internal controls to see that all the assets are safeguarded and are productive. Checks and balances are in place to ensure that transactions are adequately authorized and reported correctly.

The Company has engaged the services of a professional agency to conduct internal audit to ensure that internal controls are in place at all the sites and offices. These are being reviewed by the Audit Committee of the Board and corrective actions are being taken by the Company where needed.

Human Resources

Human Resources continues to be the biggest asset of the Company. In spite of difficult economic environment, the team has remained as committed as ever and produced results that are considered significant. Quality, quick delivery and focus on resolving customer issues are the hallmark of the team performance.

There is a strong focus on teamwork and team building and during the year, many events were conducted to achieve this objective.

Employees attended various types of training and development programs throughout the year. Employee relations continue to be cordial.

Opportunities and Threats

The success of "Central Park" at Gurgaon has provided excellent brand positioning of "Mahindra Gesco" which your company would like to capitalise on in the other projects in India. The Company is in the process of identifying more projects in the same market.

The interest rates for housing loans are expected to come down further, providing more opportunities for growth as loans would become more affordable for flat buyers.

The small metros are expanding fast and your Company is looking at expanding operation in some of the locations.

Many new malls and multiplexes opened last year in Mumbai, Delhi, Chennai, Bangalore and more are expected to open in the current year. This is changing the shopping and entertainment experience of customers and opening up as

a major segment of opportunity for the future. Your Company is planning a shopping mall in one of the new projects planned for 2003 – 2004.

The salt pan lands policy in Mumbai still needs clarity regarding its usage and development. Textile mill land in Mumbai is being developed at a rapid pace by several developers. Slum Redevelopment is another area which other developers are exploring.

Risks & Concerns

The business plan for 2003-04 assumes resolutions of issues in the case of a few delayed projects. Any delay would impact the achievement of plan.

Profitability of projects is a concern in view of rising costs of material with the selling prices remaining flat.

The Company is addressing these concerns adequately by close monitoring of the project cycle time and exploring alternate materials to curtail costs.

Business Outlook

The real estate market has stabilised and all the general trends in the market look positive for residential sector. The commercial sector continues to be weak. Your Company is currently concentrating on the residential segment only and is planning to expand in this area.

The business plan of 2003-2004 assumes aggressive growth targets. Based on the successes at Gurgaon and Kanjur Marg, your Company is planning to start new phases of the existing projects and also start some new projects including one in Chennai.

MGEM implementation will help in focusing the energy and resources in the right direction. Focus on budgetary controls and expenses will continue to receive due attention by the management of your company.

Certain statements in the Management discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be forward-looking statements within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied. Important factors that could make a difference to the Company's operations include material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in government regulations, tax regimes, economic developments within India and other incidental factors.