

# PROZONE CSC

ANNUAL REPORT 2012









“World class developments,  
delivered on time

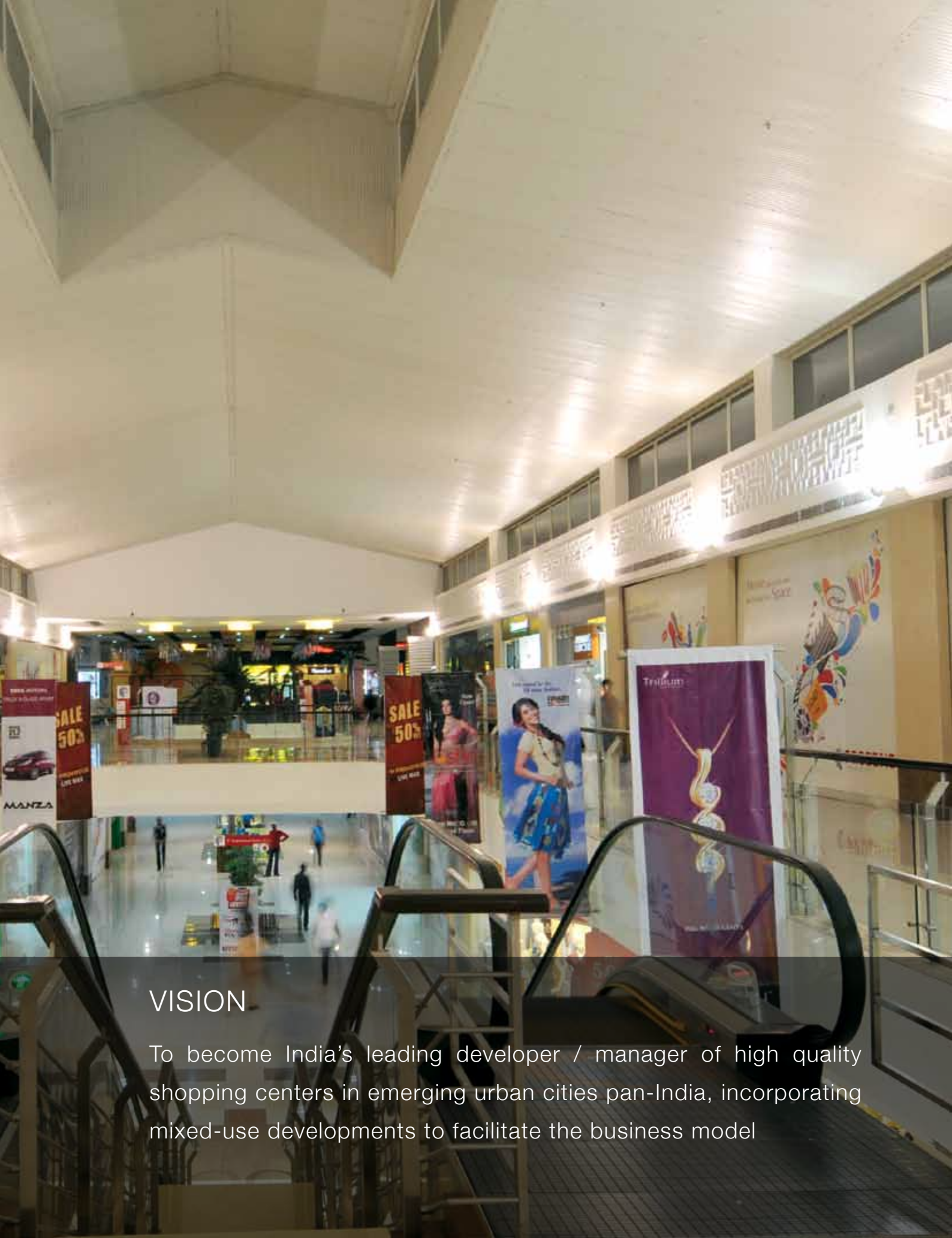


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## VISION

To become India's leading developer / manager of high quality shopping centers in emerging urban cities pan-India, incorporating mixed-use developments to facilitate the business model

## INTRODUCING PROZONE CSC LIMITED

Prozone CSC is a specialist real estate developer harnessing Capital Shopping Centres Group Plc's (CSC) experience as UK's largest retail real estate developer combined with Provogue (India) Limited's in-depth knowledge of the Indian retail marketplace. The company has a strong balance sheet, a large land bank fully paid, a planned pipeline of projects and a strong domestic execution team.

Prozone CSC is a 'Retail Led Mixed Use Property Development Business'. The business model is to acquire large land parcels at sensible entry values at selected locations in high growth corridors within city limits. To design, develop, execute and manage high quality Regional Shopping and Entertainment Centres at the right price and the right time. On the conjugant land bank to develop and sell mixed-use Residential Townships and Commercial Office Blocks to create new "City Centres".

The net result is to build properties with high scarcity value, optimize the intrinsic value of the land, and monetize the land banks to facilitate creation of debt-free retail assets generating annuity income over the long term. As India's retail market matures, quality retail real estate assets are expected to develop high yield compression ratios.

Prozone CSC has attracted investments from major institutional investors, notably the Triangle Fund (anchored by Old Mutual Group, South Africa) and the Lewis Trust Group, UK into step-down subsidiaries for three projects in Aurangabad, Coimbatore and Nagpur.

The first mall in Aurangabad is trading well and is widely acclaimed by retailers and the shopping public as a true Regional destination. Its comprehensive mix of retail and entertainment offers, its forward-looking design and high quality facilities has proven the concept. Following a thorough incubation period, the Company is poised for growth and is ready to launch the next batch of Schemes, which is anticipated to unlock significant value to shareholders.

The Company already owns six land banks in strategic city locations across the country. By 2017, Prozone CSC is forecasting to have developed 2.2 million square feet of retail assets, plus 9.7 million square feet of mixed-use assets, with a balance of 6 million square feet of FSI on its existing land banks, available for further development. The company has already achieved financial closure on construction finance required for projects in the pipeline to be implemented 2012 onwards.







On 10<sup>th</sup> February 2012 the Bombay High Court approved the demerger of 'Retail Centric Real Estate Development Business' (RCREDB) from Provogue (India) Limited into Prozone Capital Shopping Centres Limited. The 'Retail Centric Real Estate Development Business' of Provogue (India) Limited consisted inter-alia the investment of Provogue (India) Limited in erstwhile Prozone Enterprises Private Limited. Consequently, shares of the Company were issued to the shareholders of Provogue (India) Limited in a ratio of 1:1. Subsequently by virtue of the said order of Bombay High Court, Prozone Enterprises Private Limited was amalgamated with the Company and accordingly Nailsfield Limited, subsidiary of Capital Shopping Centres Group Plc was allotted shares of the Company in an exchange ratio of 313:75.

# LETTER TO SHAREHOLDERS

## Dear Fellow Shareholders

It gives me great pleasure to address you as shareholders of Prozone Capital Shopping Centres Limited for the first time as an independent Company. Prozone CSC brings together the shareholders Provogue (India) Ltd and the Capital Shopping Centres Group Plc (CSC), a FTSE-100 company and the largest specialty real estate group in the UK.

The new Company harnesses the experience of Provogue's 15 years in India's contemporary retail industry, which operates in approximately 80 markets across the country, and CSC's 35 years of international mixed-use real estate development expertise. CSC currently own 14 of UK's top 25 retail centres with a portfolio value of over GBP 7 billion. This combination brings to India a unique new business team positioned to become one of the country's leading specialist real estate developers focused around India's new consumption driven economy.

The Company has a pipeline of mixed-use developments in advanced stages of execution including Shopping and Entertainment Centres, Residential Colonies and Commercial Offices to create regional destinations as the hubs of new India. At present we have six projects under various stages of development in Aurangabad, Coimbatore, Nagpur, Indore, Jaipur and Mysore, with a combined land bank development potential of 17.9 million square feet.

Our first Regional Shopping Center is already operational in Aurangabad, and we have begun construction of a Shopping Centre in Coimbatore and will start in Nagpur next year. The first three residential projects in Indore, Coimbatore and Nagpur are underway this year while our first Commercial Office Tower, which was presold, is under construction in Aurangabad.

The company has a sound, almost debt free balance sheet and has achieved financial closure on the construction finance required for projects in the pipeline to be implemented from 2012 onwards.

## Business Strategy

Our overarching vision is to develop new urban hubs, consisting of shopping malls, residential colonies and modern office blocks that evolve as India's new city centres.

Our core business is regional shopping and entertainment centres, built on a horizontal design supported by ample parking on large tracts of land

such that residential and offices are at least 75% of the portfolio. As real estate asset classes have different cycles, our model provides a stable mix of long term annuity revenues and short term cash flows to optimize our balance sheet.

Typically, our land parcels are in excess of 30 acres in high growth corridors within city limits as many of our potential shoppers still travel by 2 or 3-wheeler vehicles or public transport and location convenience is the key to the retail's success.

Internationally, whilst regional shopping centres contribute about 16% of retail footprint, they represent over 40% of non-food retail. This type of mixed-use development model has proved to be highly stable and resilient and an excellent way of locking into the real growth of the economy.

## Development Philosophy

India is a unique opportunity having 17% of the world's population, 25% of the world's youth under 25 but only 3% of the world's landmass. The consuming middle class is expected to grow from 300 to 500 million in the next 5 years, representing the fastest urbanization in history, but most of the large metro cities are choked so the next phase of higher development is happening in Tier II & III cities. Today approximately 250 million of India's middle class live outside the top 6 metros and this is likely to trend upwards as urbanization progresses. We are also a savings driven economy, with no real social security system, hence the propensity to buy homes as protection for the future.

Features of the Indian environment sometimes require differing approaches to traditional norms. We take a long term view of value addition that overrides short term economic or competition cycles in the markets we've entered. For example in the Indore and Jaipur markets, we've chosen to cancel the Shopping Centres and launch Residential Colonies as the retail market became cluttered with oversupply. In the Nagpur and Coimbatore markets the retail and residential developments are being launched simultaneously.

Always our primary concern is to protect the investment portfolio through prudent analysis of markets and careful deployment of finances. Fundamentally we are in the business of value addition and so we engage best in class consultants, contractors and designers to deliver optimum value to our customers. Although our residential developments will release large amounts of cash





Prozone CSC's vision is to become India's leading developer/manager of high quality regional shopping centers in emerging urban cities, incorporating mixed-use developments to facilitate the business model

into our balance sheet, our clear strategy is to focus on becoming India's leading retail real estate business with a view to maximizing long term yields to our shareholders. Even with economic indicators marked down to 5.0 to 5.5% GDP growth in the coming year, India remains one of the world's most robust economies, fuelling demand in the retail sector. However, over the next 5 years we expect there to be a shortage of quality supply of shopping malls, as increasing interest rates and uncompetitive land prices have forced cancellations of many retail developments. Furthermore, some existing shopping malls are struggling due to high debt burdens providing companies with strong balance sheets opportunities for consolidation.

#### Financial Performance

The Company achieved an operational income of ₹50.31 crores, other income of ₹8.41 crores and an EBITDA of ₹22.12 crores. The major portion of these revenues came from the Aurangabad project. Going forward, the next phase of projects to be launched this year will include the first Residential and Commercial Office elements, which will increase revenues for FY13.

#### In Appreciation

We benefit enormously from the knowledge and experience of our Board and our strategic investors, the Triangle Fund and the Lewis Trust Group, whose support has been without parallel. And we're grateful for the exceptional commitment to excellence from all our employees throughout the Company.

Retail infrastructure, if patiently and carefully executed, can become one of the most valuable, 'sticky' assets in a real estate portfolio over the long term. I'm confident that our model will optimize value for our stakeholders.

My sincere thanks go out to you all for your loyalty and confidence. We promise to make the most of the opportunity for Prozone CSC and I'm sure you'll be delighted with the Company's performance going forward.

With best wishes,

Nikhil Chaturvedi  
Managing Director



# LETTER TO SHAREHOLDERS

## Dear Fellow Shareholders

It's my sincere pleasure to address you on this landmark occasion following the demerger of Prozone CSC. With a land bank of 17.9 million square feet of constructible area fully paid, we launch our Company on a sound platform. After our existing planned project portfolio is complete, we will still have a residual balance FSI of 6 million square feet primed for further development.

The overarching focus of Prozone CSC is to bring quality construction to emerging cities in India. Our current project portfolio is widely spread across cities such as Aurangabad, Coimbatore, Nagpur, Indore, Jaipur and Mysore, and targets diverse categories of real estate development – retail, residential and offices. The year marks the launch of residential projects Indore & Nagpur, and next year we will start at Coimbatore. These development phases will lead to a crescendo of value addition and a new peak in 2015. We believe that our mixed-use strategy and the range of locations and product offers that comprise our portfolio will help provide stable cash flows in the short to medium term.

Together with Capital Shopping Centres Group Plc, Triangle Real Estate India Fund and LTG International we have strong operational and financial expertise to conduct our business. Triangle Real Estate India Fund, co-promoted by ICS Realty Group and Old Mutual Investment Group Property Investments, is an investor in our project-specific SPVs for the Aurangabad, Coimbatore and Nagpur locations. Similarly, LTG International, promoted by Lewis Trust Group, an investment company that operates retail stores, real estate, wealth management business and

hotels globally, is also an investor in the same portfolio.

## Residential and Commercial Philosophy

We are committed to delivery of our Residential Colonies and Commercial Offices perfectly on time and to exceed our customers expectations on the quality of finishings, services and amenities. To ensure we keep this promise, we only launch our projects after all permissions and finances are in place. In line with our credo, 'Commitments Delivered', we have engaged only best-in-class contractors and consultants and incorporate international best practice in design and use of materials. This philosophy to deliver the very best is supported by a strong campaign to attract the cream of the local society to our schemes.

## Aspirational Developments

We look to create aspirational developments in the Residential and Office sectors that we believe have distinctive designs and functionalities with quality construction and finishings that will enhance our brand and reputation, and will enable us to sell our units quickly and at a premium to other competing developments.

Despite average excess inventory in the Office sector, there exist pockets of supply demand imbalance, which is where a specialist player such as Prozone CSC can benefit. For example talent pools for many industries prefer to work within mixed-use developments and many Corporates prefer such spaces as it attracts and retains the best staff. In launching the first phase - 190,000 square feet - of our Office Centre in Aurangabad this year, the entire inventory was sold in the first week.