

**PROZONE CSC**

BUILT TO LAST

ANNUAL REPORT 2013



Driven by a focus on execution and led by internationally experienced teams, our business model will unleash cash flows and unlock value to deliver sustained long term growth







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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





Prozone CSC is a specialist retail and residential-led mixed-use real estate development company, harnessing Intu Properties plc (formerly Capital Shopping Centres plc) experience as UK's largest retail real estate developer combined with Provogue (India) Ltd's in-depth knowledge of the Indian market. The company has a strong balance sheet, a large land bank fully paid, a planned pipeline of projects and a strong domestic execution team. Intu Properties plc is a FTSE 100 Company listed in UK and has an asset valuation of more than 7 billion pounds. Intu Properties plc owns 14 properties, 10 of the top 25

shopping centers with a dominant market share. Two senior board members of Intu sit on the board of Prozone CSC.

The business model is to acquire large land parcels at select locations in high growth corridors within city limits. Subsequently design, develop, execute and manage high quality Regional Shopping and Entertainment Centres and on the conjugant land bank to develop and sell mixed-use Residential Townships and Commercial Office Blocks to create new 'city centres' across the rapidly evolving Indian urban landscape.

The plan is to develop long term scarce assets with properties that optimize the intrinsic value of the land with sale of Residential and Commercial units to monetize the land banks facilitating the 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.

The Company owns six land banks in strategic city locations across the country comprising a total of 17.8 million square feet of developable area. By 2017, In the next 3-4 years, Prozone CSC forecasts to develop 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 achieved financial closure on construction finance required for projects in the pipeline.



# LETTER TO SHAREHOLDERS ▼

## Dear Shareholders

It's my pleasure to share with you our performance and future plans in Prozone CSC's 1<sup>st</sup> year as an independent listed company.

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 urban centres. 4 projects are at various stages of execution in Aurangabad, Coimbatore, Nagpur and Indore. The company has a sound, almost debt free balance sheet and has achieved closure on construction finance required for projects in the pipeline.

Our priority now is on execution of the projects in hand.

## Operations Report

The Aurangabad mall trading densities have exhibited steady growth. Against the backdrop of a tough retail market we've increased our marketing efforts to ensure we continue to add footfall, which is currently over 600,000 per month, and as a result we continue to increase our market share in the city.

The first commercial office tower in Aurangabad of 190,000 square feet, which was presold, is under construction but as the commercial market is sluggish we're waiting for completion of the 1<sup>st</sup> phase before launching phase 2. We've also earmarked 55,000 square feet in the lower ground floor to develop a community street market called 'Saral Bazaar', which is 75% sold out and also under construction. Both these projects will be delivered within FY14 and when operational will help to consolidate our position as the new city centre of Aurangabad.

In Nagpur, construction of the residential sales office, sample flat and site infrastructure has been completed. The residential project pre-Launch was extremely well received with sales of 292 units, because we were able to exhibit the quality of the product at competitive prices within the vicinity. The clubhouse and infrastructure, now under development, is enabling us to command a premium and better absorption for the project. We will begin the first phase of construction this financial year.

In Indore, construction of the residential sales office, sample flat and site infrastructure is almost completed and the clubhouse is now under construction. We will also launch phase I of the project within this financial year.

In Coimbatore, the mall design is completed, commitments from key anchors are in place and work has started on the site. Design is also completed for the residential township and the

sales office, show flat, clubhouse and landscape infrastructure is under construction.

Our focus is on a carefully phased execution plan, attuned to market demand, and we expect these projects to begin generating strong cash flows this year.

## India's Economic Backdrop

Despite slower recovery of the Indian economy than hoped, with key economic indicators such as Current Account Deficit (CAD) at almost 5.5% of GDP and inflation at over 10% remaining high, plus pressure on the Indian Rupee, real estate businesses must take a longer term view of the market in light of the gestation periods required to fructify value.

We believe that India's economic fundamentals in the long term are driven by three key factors:

a)Rapid urbanisation with over 50% of the population forecast to be urbanised by 2020, from current level of 29%

b)The high youth population forecast to fuel growth of the consuming class from 300 to 500 million people in the next 5 years with per capita income estimated to grow at 13% pa, and

c)A savings-driven economy; as India has no real social security system, the propensity is to buy homes as protection for the future. Over 50% of Indian savings, projected to be \$10 trillion over the next 10 years, is expected to be invested in residential real estate.

The combination of these factors fuels aspects of the entire economy. The landscape of India is changing as urbanisation gives rise to new major cities emerging in Tier II and III sectors. This is creating a housing supply/demand imbalance, currently 18.8 million units, expected to last for a decade or more. In turn this spins-off growth of related industries such as cement and steel for construction as well as urban infrastructure.

The evolving consumer class is also spearheading growth of the retail market, forecast to reach \$1,000 billion by 2020 from the current \$490 billion. As 64% of India's GDP is from consumption, with retail and services the biggest drivers, GDP growth estimated at about 5% for FY14, is expected to reach 8-9% through 2020.

## Business Model

Retail infrastructure can become one of the most valuable, 'sticky' assets in a real estate portfolio over the long term. Our core business is to be a leader in regional shopping and entertainment centres, built on a horizontal design with ample parking on large tracts of land in high growth 'edge of town' corridors, supported by excellent infrastructure development.

We treat retail as long term assets on a build to lease model occupying about 25% of FSI and generating high value annuity income. We utilize residential and offices as short term assets on a build to sell model occupying 75% of FSI to generate cash flows, which support the construction capex of retail enabling debt retirement sooner, and the surplus cash flows fuel future growth.

## Development Strategy

We have developed key differentiators that meet customers' needs and give Prozone CSC a distinct USP. Our strategy is to anchor each scheme with required site infrastructure and facilities first and have the required documentation in place before we launch a project. Thus exhibiting the quality of our schemes and ensuring on-time delivery.

In residential colonies, we believe that luxury is in the details, so every aspect of design and development is planned 'inside-out' to the minutest detail. Homes are developed in large open-spaces to international standards of quality and features, incorporating privacy and security for the family in an aspirational environment. We complete the clubhouse, show flats, infrastructure and landscaping first before launching a project to exhibit the quality of the development, which results in more rapid sales and value escalation in subsequent phases.

We design and develop large-scale regional shopping centres that are convenient, comfortable and safe. Overall, we aim to provide people with the perfect mix of shopping and entertainment experiences allowing us to nurture enduring relationships with retailers that deliver long-term growth for our retail vertical.

Always our primary concern is to protect the investment portfolio through prudent analysis of markets and careful deployment of finances.

## Financial Performance

The company achieved consolidated operational income of Rs. 77.21 crores and other income of Rs. 6.79 crores in FY13. The major portion of these revenues came from Aurangabad's retail rental income and sales of commercial units plus sales of the residential units in Nagpur. The next phase of projects being executed this year will increase revenues for FY14.

We benefit enormously from the knowledge and expertise of our Board and our strategic investors, the Triangle Fund and the Lewis Trust Group, whose continued support is greatly appreciated. I'm also grateful to all our employees throughout the company for their dedication to achieve excellence in all that we take on.

We're poised to unlock the value that we've carefully put in place over the years and I'm sure that we have created a world-class company that is 'built to last'.

With best wishes,

Nikhil Chaturvedi  
Managing Director



“ With a land bank of 17.8 million square feet fully paid, our focus now is on execution to unlock value in a carefully phased plan

# LETTER TO SHAREHOLDERS ▼

### Dear Shareholders

Prozone CSC is a young company, just 7 years old, and this is our 1<sup>st</sup> year of operations as an independent listed enterprise, but we draw upon decades of experience through our unique partnership with Intu Properties plc (formerly Capital Shopping Centres plc). Prozone harnesses Intu's over 35 years of international experience across real estate sectors and a proven track record of solid financial performance and consistent delivery with Provogue (India) Ltd's 15 years in-depth knowledge of the Indian market.

We have one overarching objective that influences our decisions and actions. That goal is simply to be the best specialist mixed-use property development company in India. We don't have to be the largest, just the best. It means bringing value to our customers and ensuring sustainable shareholder returns. It also means a rigorous focus on quality in all its aspects, transparency in our dealings and fostering a culture of inclusiveness, mentorship and learning to make Prozone CSC the best and most rewarding place to work in the industry.

The sum of these parts means a culture of continuous enhancement of business quality and performance to ensure that Prozone CSC will maintain its growth and profitability record over the long term.

We live today in a rapidly evolving marketplace and an economic environment that has been through its most tested period in memory. Businesses who can learn from this are the ones that will shine into the future. It is not enough to rely on what we've built so far, but to constantly explore new frontiers, innovate and invest passionately in the future.

In my letter this year I will share with you the opportunities and performance of our Residential and Commercial real estate verticals.

### Our Promise

Our overarching promise is to deliver our projects on-time and to exceed our customers' expectations on design and the quality of finishings, services and amenities. To ensure we keep this promise, we only launch projects when all required documentation is in place. We strive to

create aspirational developments in the residential and commercial sectors that we believe have distinctive designs and functionalities to enhance our brand and reputation, which enable us to sell our units faster and at a premium to other competing developments.

### Market Opportunities

There is a large supply/demand gap in the mid-level residential sector, especially in Tier II & III cities as well as selected development corridors in the major metros. For example in 2013 there is an undersupply of 18.8 million residential units in India and this gap is not expected to close due to the rapid urbanization that will drive 300 million more people to urban centres by 2020. This presents an opportunity for us to develop residential-led mixed-use developments and unlock cash flows that can be used to develop retail on adjacent land and for future investment.

Despite excess inventory in the commercial sector, pockets of supply/demand imbalance exist - and can be created through the mixed-use model. Experience from other markets has proven that people want to walk to work and live nearby to great retail and entertainment destinations. Companies are also keen to move their offices into these locations as it attracts and retains the best workforce. For example, at our first office tower in Aurangabad, The Prozone Trade Centre, we sold 96% of 190,000 square feet in the first week.

### Performance Outlook

Our residential and commercial portfolio will anchor the company's balance sheet to create a world-class company with large headroom for growth.

With a land bank of 17.9 million square feet of constructible area fully paid, and with 4 projects now underway, we are poised to unlock greater cash flows this year from our residential and commercial portfolio and extend our retail footprint. The developments in Aurangabad, Nagpur, Coimbatore and Indore are being carefully phased to improve realizations at each stage. Once these are completed, we will have residual balance FSI primed for further development at scarce land values.

The developments under execution will mature by 2015 and as new projects take 2-3 years to fructify,

we are alert to other land parcel opportunities at a time when attractive options are available because of the tightening in the economy.

### Invaluable Relationships

We benefit enormously from the hands-on partnerships with Intu Properties plc, Triangle Real Estate India Fund and LTG International.

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.

We're also proud of our experienced and well-qualified professional teams in architecture, engineering, construction, project supervision, finance and accounting, marketing and sales. This strong in-house management group works with renowned consultants and contractors with proven track records to deliver and manage the quality, scheduling and cost of materials in our projects.

After 7 years of preparation and incubation, we stand poised to unlock the value we've promised and I'm confident of a great future. Our strong, almost debt free balance sheet, shields us from the economic uncertainties that many other developers must face in today's market. Our job this year is all about execution. We're ready, and the best is yet to come.

We have a resolute determination to seek out excellence in all that we do. We have created a sound business model but this must go hand-in-hand with the ability to not only sustain every aspect of quality and performance but to maintain the vision and the will to deliver it. We must always be alert for change and better ways of doing things. It is this combination that determines a Company's character, its culture of inclusiveness, empowerment, innovation and a thirst for continual improvement. That mission is our DNA; that is Prozone CSC.

Sincerely,

Salil Chaturvedi  
Deputy Managing Director



“ Our residential and commercial portfolio will anchor the company's balance sheet to create a world-class company with large headroom for growth



# CORPORATE INFORMATION ▼

## Board of Directors

Mr Nikhil Chaturvedi	Managing Director
Mr Salil Chaturvedi	Deputy Managing Director
Mr David Fischel	Non Executive Director
Mr John Abel	Non Executive Director
Mr Punit Goenka	Independent Director & Chairman
Mr Rajiv Singh	Independent Director

## Company Secretary

Ms Snehal Bansode

## Statutory Auditors

Singrodia Goyal & Co.  
Chartered Accountants  
4A, Kaledonia-HDIL, 2nd Floor,  
Sahar Road, Near Andheri Station,  
Andheri (East), Mumbai, 400069, India

## Bankers

Corporation Bank  
HDFC Bank Limited

## Registered Office and Corporate Office

Prozone Capital Shopping Centres Limited  
105/106, Provogue House  
Off New Link Road, Andheri (W)  
Mumbai 400 053, India  
Website: [www.prozonecsc.com](http://www.prozonecsc.com)

## Registrar & Transfer Agent

Link Intime India Pvt. Ltd.  
C/13, Pannalal Silk Mills Compound  
L.B.S. Road, Bhandup (W)  
Mumbai 400 078, India

## E-mail ID for Investors' Grievance

[investorservice@preozonecsc.com](mailto:investorservice@preozonecsc.com)

# BOARD OF DIRECTORS ▼

## Nikhil Chaturvedi

Managing Director, Nikhil is a visionary and hands-on leader, who inspires the organisation with a passion for excellence and single-mindedness to build shareholder value, which is his driving force

## Salil Chaturvedi

Deputy Managing Director, Salil leads corporate strategy of the Company from a track record of spearheading successful business development across sectors. He is also responsible for the new asset class initiatives in the residential and commercial sectors

## David Fischel (Non Executive Director)

David Fischel is the Chief Executive of Intu Properties plc and has led the Company's development for over 21 years, including its conversion to one of the top 20 REITs in the world. He is today, one of the most respected retail property professionals of his generation

## John Abel (Non Executive Director)

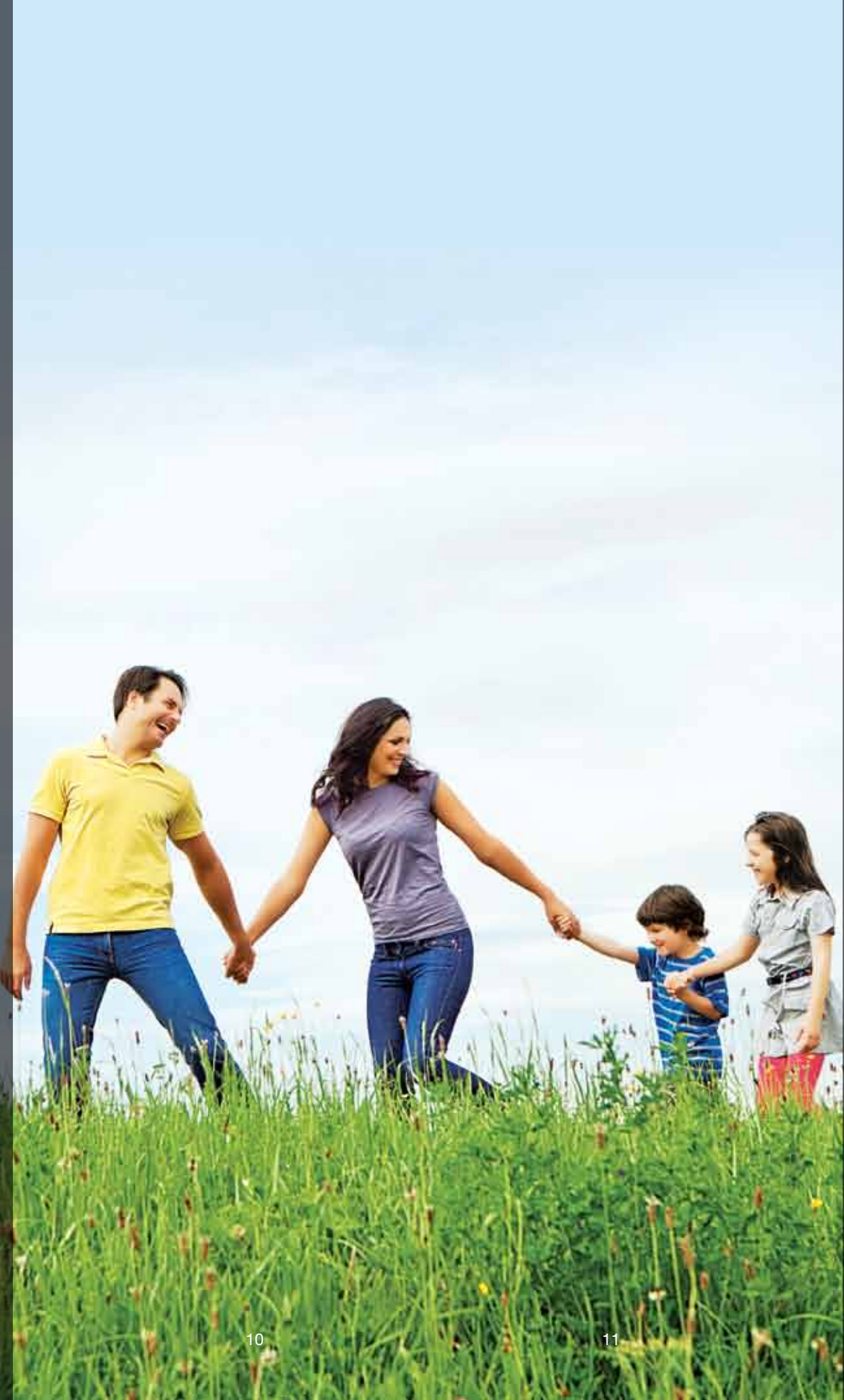
John Abel joined the Intu Properties Plc in 1972 and was appointed an Executive Director in 2000. He was appointed a Director in 1994 and Managing Director in 2005 and he continues as non-executive Director of Intu Properties Plc with special focus on India

## Punit Goenka

Mr Goenka, Director of Essel Group, is CEO of Zee Entertainment Enterprises Limited and leads one of India's most successful TV and Media businesses. He has an extensive, diversified background in the areas of media, entertainment, and tele-communications in global markets

## Rajiv Singh

Mr Singh is Director Finance of the Karamtara Group of companies. Rajiv holds a Bachelor of Commerce degree from Mithibai College, Mumbai and a MBA Finance degree from the European University in Switzerland





## BUSINESS PHILOSOPHY ▼

Providing customers with world-class quality and experience is the core philosophy behind Prozone CSC.

Regional Shopping centres are designed and developed to be convenient, comfortable and safe. Overall we aim to provide people with the perfect shopping experience allowing us to nurture enduring relationships with retailers that delivers long-term growth for our retail vertical.

We believe that luxury is in the details, so every aspect of design and development is planned 'inside-out' to the minutest detail. Residential townships are planned in large open-spaces to the highest quality standards, with world-class features, delivered on time to create affordable luxury residences in India's booming new urban landscape.

Typically the business strategy is to utilize 75% of the land as Residential & Commercial on a Build & Sell model and 25% of the land to developed Retail on a Build & Lease Model. Cash flows from the sale of Residential and Commercial support the construction capex of Retail assets enabling debt retirement sooner and the surplus cash flows fuel future growth.





## CONSUMPTION-LED REAL ESTATE ▼

India is a unique opportunity having 17% of the world's population but only 3% of the world's landmass and 25% of the world's youth under 25, with 54% of India below 25 years and 72% below 35 years. Youth is the trustee of prosperity and our modern society is an 'earn and spend' culture unlike the older generation.

India is also experiencing massive urbanization with over 50% of the population expected to be urbanized by 2020, from current level of 29%. This will result in over 300 million new people flocking to urban centres thereby fuelling demand as society shifts to a nuclear family culture. This rapid urbanization is changing the urban landscape as large cities such as Mumbai and Delhi are choked giving rise to the emergence of many Tier II and III cities as India's new urban metros.

In a savings driven economy, and with no real social security system, the propensity is to buy homes as protection for the future. Over 50% of India's projected savings of \$10 trillion over the next 10 years is expected to be invested in residential real estate.

The combination of these three forces fuels consumption and is creating an urban housing supply/demand gap that is forecast to last for a decade or more. This unveils huge opportunities to develop affordable, luxury residential real estate across the Indian landscape.

India has one of the highest growth retail sectors in the world with youth being the main driver behind





## CONSUMPTION-LED REAL ESTATE ▼

the robust long term consumption story. Retail is the prime driver of the new Indian economy and represents approximately two-thirds of overall consumption. At \$490 bn in 2013 retail is forecast to grow to \$1,000 bn by 2020 and with 100% FDI now allowed for single brand retail and 51% FDI allowed for multi-brand, the entry of foreign players is spurring growth of the organised retail sector. Organised retail is currently only 5.5% of the total but is growing at approximately 20% per annum leading to strong demand for quality retail infrastructure.

### REGIONAL SHOPPING CENTRES

Large scale Regional Shopping Centres provide shoppers with all their needs, in one place for the whole family. By developing and actively managing our centres to offer the right mix of retail, leisure and catering we deliver compelling destinations for shoppers and become the landlord that retailers want to do business with. Our mall management philosophy is to develop a powerful footfall, and to ensure our centres provide the right trading environment for the community. This results in attracting a broad cross section of retailers in order to create long-term and sustainable growth in net rental income.

Prozone Aurangabad mall was successfully launched in October 2010. Anchored by India's leading retailers, the

mall is operating with 79% of its retail spaces filled. In a city of 1 million people, the mall is averaging 600,000 customer visits per month and is acclaimed as the major shopping and entertainment hub for the Marathwada region of Maharashtra. Two more projects are in advanced stages of design and preparation in Nagpur and Coimbatore.

### RESIDENTIAL COLONIES

In a market where there are concerns related to delivery of residential real estate, our differentiated strategy is to develop and have in place all site infrastructure, landscaping and the clubhouse before we launch the project.

The mission is to create aspirational living environments with all modern amenities to luxury standards on the lines of successful international models. Prozone Residences are designed not just as a way of living, but also as a lifestyle.

We believe in designing homes from the inside out, keeping in mind the dwellers perspective. The overall deliverable is a gated community with a traffic free landscape, uninterrupted views, privacy and a safe & secure environment for the family.

We design timeless facades in a way that the elevation of the building remains



SALES OFFICE



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