

prozone intu



ANNUAL REPORT 2014





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

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PROZONE INTU PROPERTIES LIMITED



Prozone Intu is a specialist retail and residential-led mixed-use real estate development company, harnessing Intu Properties 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 7.6 billion pounds. Intu Properties plc owns 15 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 Intu.

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 overarching 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 Intu 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 2018, In the next 3-4 years, Prozone Intu 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 annual review and highlight the key fundamentals of our business plan that I believe will optimize the valuation of Prozone Intu Properties Ltd over the long term. The company changed its name from Prozone Capital Shopping Centres Limited to Prozone Intu Properties Limited in 2014 to align with the new name of our UK partner, Intu Properties plc (formerly Capital Shopping Centres Group plc).

Our priority now is on execution of the investments we've made over the years. Continued development of our existing projects is in full swing and we will begin the process of unlocking significant value this year. Let me first outline our strategy relative to the current market conditions.

The Market Dynamics

Despite slower recovery of the Indian economy than hoped last year, with GDP growth under 5%, inflation at over 10% and pressure on currency weakening the Indian Rupee, all signs suggest that economic confidence is returning following the election of a new pro-development Government. Real estate businesses must in any case 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 over the long term are driven by three key factors: Rapid urbanization with over 50% of the population forecast to be urbanized by 2020, from current level of 29%; High youth population, which is the prime driver of consumption, with over 70% of the population under 35 years; and a savings-driven economy - as India has no real social security system, over 50% of Indian savings, projected to be \$10 trillion over the next 10 years, is expected to be invested in residential real estate.

Urbanization gives rise to new major cities emerging in Tier II and III sectors, as the major metro cities are already choked and highly priced. This is further fuelling an already wide housing supply/demand imbalance especially in the mid-to-upper level residential sector where we operate. This backdrop fits perfectly with our original strategy for Prozone and our existing investments into Tier II cities.

Our Business Strategy

We operate two distinct business models that are harmonized to optimize value. The Build to Lease model for retail shopping centres generates a rental income stream and delivers long term value through yield compression. The Build to Sell model

for residential and commercial developments unlocks value shorter term through cash flows from property sales.

Retail infrastructure can become one of the most valuable, 'sticky' assets in a real estate portfolio over the long term. However, under the economic conditions of the past couple of years, we decided to slow down our retail development and reduce the mall sizes to align with the market. Developers in Tier II & III cities have been hit the hardest in the softer market but now with improved economic indicators and consumer confidence beginning to return we believe the time is right to go forward with our retail projects.

Two other factors are affecting the retail infrastructure business. Ecommerce is growing exponentially and putting pressure on many types of offline retail. Many retailers are therefore more cautious about brick-and-mortar expansion and as a result we're redesigning our mall tenant mix to be more experiential and adding more entertainment elements. Additionally, with the influx of foreign brands entering India seeking world class trading platforms, the value of quality retail space will rise. There is a scarcity of high quality shopping malls and, with our partners, we have ensured our malls are designed to the highest international standards.

In the residential sector we have developed key differentiators that meet homebuyers' contemporary needs and give Prozone Intu a distinct USP. Our strategy is to anchor each scheme with required site infrastructure and facilities first and have all approvals in place before we launch a project. This way we exhibit the quality of our projects and give our customers the confidence of on-time delivery. In general Residential sales have been sluggish last year, but the mid-level segment in Tier II cities, in which we operate, is growing so we are moving ahead swiftly to develop and launch our residential townships.

Operations Overview

The Aurangabad mall has exhibited steady growth in trading densities, and retailer sales. We've increased our marketing spends to ensure we continue to add footfall in a softer market and as a result we continue to increase our market share in the city. Our first commercial office tower (Prozone Trade Centre) of 190,000 square feet, which was presold, is under construction, but as the commercial office sector is slow, we're timing the completion in line with demand. The Aurangabad 'street market' (Saral Bazaar) of 55,000 square feet in the lower ground floor is 65% sold, nearing completion and should be open by the end of



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2014.

In Coimbatore, shopping mall leasing is in progress for key anchor tenants as well as the multiplex plus entertainment zone. We also have strong interest from both national as well as the local/regional retailers. The residential township's sales office, show flat, clubhouse and landscape infrastructure is under construction and should be completed by end 2014. We plan to launch the project for sales in early 2015, within this financial year.

In Nagpur mall design is completed but we are focusing on residential first such that the cash flows generated will fuel construction costs of the retail segment. The residential sales office, sample flat and site infrastructure has been completed and the pre-launch was extremely well received with sales of over 340 units. The clubhouse and infrastructure is under development and we will begin the first phase of residential construction and restart sales in second half of 2014.

Our focus is on timely execution, attuned to market demand, and cash flow management. Revenue recognition from our key residential projects is expected to generate strong cash flows this year and grow further in FY16.

Financial Performance

The company achieved total consolidated revenue of Rs 59 Crore against the last year's total consolidated revenue of Rs 84 Crore. The Aurangabad mall rental income remained steady. This lower revenue reflects that there were no commercial office sales in FY14, whereas we had presold the first office tower in Aurangabad the previous year. We'll see revenue climb sharply once our residential properties go to market. The company earned consolidated EBITDA margin of Rs 21.39 Crore against Rs 25.76 Crore the previous year, down 17%. This was largely due to increased power costs and additional marketing expenditures in the Aurangabad mall, required to maintain footfall in a softer retail market.

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 passion, loyalty and dedication to achieve excellence.

It's been an 8-year journey for all of us in Prozone Intu so far. Always our primary concern is to protect our investment portfolio through prudent analysis of markets and careful deployment of finances and we've now reached a 'tipping point' where unlocking value will begin in earnest. I'm extremely grateful for your confidence; it's going to be a great journey ahead and I'm glad we're together to enjoy it.

With best wishes,

Nikhil Chaturvedi
Managing Director

LETTER TO SHAREHOLDERS

Dear Shareholders

I'm delighted to have the opportunity to address you again after our 2nd year as an independent company. Our overarching resolution is to build a high quality real estate business that will deliver excellent returns over the long term and be recognised as a leader in quality, transparency and efficiency in both execution and on-time delivery to our customers. We therefore strive for excellence in all that we do. Our goal is clear - to be the best specialist mixed-use property development company in India.

In my letter this year I will focus on our Residential portfolio and apprise you of our progress and our plans for the future. In summary our residential real estate model is tuned for long term high growth and will deliver the cash flows to anchor our balance sheet, fuel expansion and create a world-class company.

The Residential Environment

India's rapid urbanization is the key driver for residential market expansion. Over 300 million more people are expected to move into urban centres by 2020 and as the major metros are already overcrowded and high priced this will lead to the emergence of major new cities in the Tier II and Tier III sectors. For example in 2014 there is estimated to be an undersupply of approximately 19 million residential units of mid level housing and there is no end in sight for this supply/demand imbalance. When we founded Prozone Intu in 2006, this was our vision and our investments in land banks in Tier II and Tier III India can now be and are being harvested.

Recognizing the need to fast track infrastructure development, the new Government is expected to introduce policies that will accelerate the real estate sector's approvals processes and enable us to realize our value additions earlier and streamline our execution plans.

Development Strategy

Of our four current major projects in Aurangabad, Indore, Coimbatore and Nagpur, we have decided

that Indore, Coimbatore and Nagpur should be residential-led rather than retail-led mixed-use developments. By developing residential first we can unlock cash flows to enable us to build debt free retail assets on adjacent land later once a community has been established. And commercial real estate is a natural next step as global models prove that as new communities emerge people want to work and live within convenient distances.

All our residential developments are being carefully phased to improve realizations at each stage. Our strategy is to fully develop the land infrastructure and the clubhouse and gardens first before we go to market. Then we develop the residential community in phases, unlocking higher values at each phase. Even when all our present residential projects are completed we will still have residual balance FSI primed for further development at scarce land values. Specifically, in our current land bank of 17.9 million square feet of constructible area, fully paid, once our 4 mixed-use projects are completed, we will have a residual FSI of 6 million square feet of high potential value realization.

Performance Report

The development of land infrastructure, show homes and clubhouse facilities are underway in all three residential projects and will be completed by September/October 2014. We are planning to launch residential in Nagpur and Coimbatore first, in the 4th calendar quarter this year, and we should expect to see cash flows emerge from these projects in the FY15 fiscal and contribute significantly in FY16.

We pre-released some residential units in Nagpur early this year and received an overwhelming response to the design and quality of our homes and the facilities we are providing the residents.

The developments under execution will mature by 2015/16 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.



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In Appreciation

We highly value the experience and confidence of our partners and investors in Prozone Intu. Our partners, Intu Properties plc, UK allow us to harness their more than 35 years of international experience across real estate sectors and a proven track record of solid financial performance and consistent delivery.

We also benefit greatly from the hands-on relationships with Triangle Real Estate India Fund and LTG International. The Triangle Real Estate India Fund is co-promoted by ICS Realty Group, India and Old Mutual Investment Group Property Investments, South Africa, who have developed large real estate projects on a global scale for over 50 years. LTG International, promoted by Lewis Trust Group, UK is an investment company that operates retail stores, real estate, wealth management business and hotels globally.

I'm 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 backbone works with renowned consultants and contractors with proven track records to deliver and manage the quality, scheduling and cost of materials of our business.

In closing I want to thank every one of our shareholders for their support, loyalty and trust in our company. After 8 years of hard work together we are ready to see the benefits of a sound business model that we've put in place carefully to optimize long term value. Our strong, almost debt free balance sheet, shields us from the economic uncertainties that many other developers must face in today's market. We are on track, we're ready, and a great future awaits us.

Sincerely,

Salil Chaturvedi
Deputy Managing Director

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

SGCO & 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 Intu Properties Limited
105/106, Provogue House
Off New Link Road, Andheri (W)
Mumbai 400 053, India
Website: www.prozoneintu.com

Registrar & Transfer Agent

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L.B.S. Road, Bhandup (W)
Mumbai 400 078, India

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