

ANNUAL REPORT 2015



prozone  
intu 



## VISION

To be 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 LTD

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 9.5 billion British pounds. Intu Properties plc owns 15 properties, 9 of the top 20 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 2-3 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 and construction is ongoing at three locations.

# LETTER TO SHAREHOLDERS

## Dear Shareholders

It's been a challenging year for the real estate market in general. Lack of confidence among end users has depressed demand, delayed start-ups and squeezed prices.

During such down-cycles there is a huge opportunity for players who are well funded. Experience shows that when malls are built in downturns, demand increases as supply dries up. This is proving to be the case in Coimbatore as we pre-lease.

In the residential sector, whilst the general market is depressed, there are some localized bright spots where location demand and affordability are favourable. We have found this to be the case in Nagpur.

With a strong balance sheet we can also look into opportunities for JVs and JDs that often crop up at low points in the cycle.

So overall I feel we're well positioning for the future.

## Market Overview

The retail sector has been hit hard this past year by the emergence of e-commerce marketplaces offering consumers deeply discounted prices with convenient drop shipping to the home. This has put pressure on the more unviable shopping centres and many have been forced to close as their retailers failed. This bottom-slicing of malls is leaving a void of quality retail infrastructure in the market.

There are signs now that online retailing alone is not sustainable as a long term consumer proposition. Online to Offline (O2O) is increasingly being discussed as a solution where even the online majors will have an omni-channel presence. This will fare well for developers who own the quality modern retail infrastructure in the country.

The Residential market has remained largely dormant during most of 2014. With a pro-development Government and with the key drivers of higher GDP growth, increased standard of living and rapid urbanisation in place, there is optimism that we'll see an upswing in the near term, but this has not happened yet. Absorption and sale velocity is only being witnessed in selective affordable housing developments in certain metro suburbs and tier-2 and tier-3 cities.

The Government has taken steps to accelerate the real estate sector by providing greater access

to funding and extending liquidity and tax credits to the end-user to strengthen affordability. Both these initiatives should lead to an improved balance of demand and supply in the future.

FDI is also now permitted up to 100% under the automatic route for housing, townships, commercial and industrial construction designed to boost infrastructure activities in the country. This should especially help urbanisation in tier-2 and tier-3 cities, which were struggling to develop projects.

## Business Strategy

Our long term strategy remains in place. To build and manage regionally dominant, high quality shopping centres that offer retailers a strong aggregated footfall and a trading environment that will ensure them long term success. International brands entering India who need world class trading platforms and value quality retail space are showing great interest in our schemes. The scarcity of high quality malls will cement demand for our centres long term.

Retail infrastructure can become one of the most valuable, 'sticky' assets in a real estate portfolio over the long term if the centres can consistently attract shoppers. So, to offset the e-commerce surge we needed to provide shoppers with more experiential shopping environments. We've therefore tweaked the tenant mix in favour of more leisure and family entertainment for consumers, which in turn reinforces Prozone Intu as a strong partner for retailers to optimize sales densities.

Under the economic conditions of the past couple of years, we had slowed down our retail development pipeline and reduced mall sizes to align with the market. We've decided this is now the time to bring centres on stream but we are pushing ahead one scheme at a time to ensure we have the focus and dedication of resources to make each one perfect.

Our mall management experience, in partnership with Intu Properties plc, is unparalleled in India and allows us to develop valued long term relationships with retailers.

In the residential sector, 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 homes and give our customers the



We are now at the inflection point where monetization of our assets will begin to flow

confidence of on-time delivery. This has proven a highly successful approach and all the units released for sale so far have seen a strong demand.

### Operations Update

Over the past few years, the priority has been on preservation of assets during an uncertain economic environment. Now with general market momentum improving we've kick-started our pipeline and the projects that are under construction will begin to fructify our investments.

With the support of our partners we are restructuring balance sheets such that each business unit becomes self-sustaining. This is a powerful means of bringing focus to critical areas of each development and will improve overall operational excellence.

Our focus is on timely execution, attuned to market demand, and cash flow management. With construction underway across three projects, we are now at the inflection point where monetization of our assets will begin to flow.

### Financial Performance

The Company achieved total consolidated revenue of Rs 68.02 Crores against the previous year of Rs 58.84 Crores and earned consolidated EBITDA margin of Rs 21.22 Crores against Rs 21.39 last year.

Going forward we can expect a sharp climb in the top line as Nagpur residential revenue recognition kicks in now that the project well under construction. Aurangabad retail revenues have stabilized and will underpin the overall performance long term.

### The Future

I'm confident that our cautious approach not to hurry developments has proven to be the wisest strategy and we are now in a position of strength that will enable us to reap strong dividends for a long time to come.

My sincere thanks go to our Board and our strategic investors, the Triangle Fund and the Lewis Trust Group, whose continued support is greatly appreciated. I'm also proud of our employees throughout the company for their consistent teamwork to achieve our goals.

I'm confident of a great future ahead and that our patience will pay off handsomely as value realization begins.

With best wishes,

Nikhil Chaturvedi  
Managing Director



# LETTER TO SHAREHOLDERS

## Dear Shareholders

I'm pleased to address you this year at a time when we believe our business is at a tipping point for value realization. The goal has always been to create a high quality real estate business that will deliver consistently excellent returns. The right mix of long term and short term assets in the portfolio is key to our strength as a business and provides us the platform for growth.

Residential will be the focus of my report this year. This is the engine that can release cash to fund investment into retail infrastructure and fuel acquisition of new land banks and JVs for growth. With this model we are building a world-class company with a strong balance sheet, headroom for growth and sustainable value.

## Residential Real Estate

It's been a tough year for the Residential sector. In the general market, as far as returns are concerned, investments have underperformed, as prices remained subdued in most markets. Sales were poor due to low demand from depressed consumer sentiment. Even the festive season failed to push sales.

However, the economy is now showing signs of recovery and there are some positive signals with inflation in decline and lower interest rates on the horizon. The election of a stable government has buoyed longer term investor sentiment. Furthermore, announcement of steps to boost affordable housing, "the housing for all by 2022" plan, will make it easier for many more people to buy a house.

As enquiries are not yet converting into sales, many builders are holding on from launching new projects. High inventories and low absorption rates indicate it will take time for the general market to recover.

Commercial properties were slightly better off in 2014 as fall in capital values increased rental yield and are an attractive investment at this moment in several key markets.

## Development Strategy

Market conditions depend upon the dynamics of individual cities, each with its own market drivers. Our investment locations remain sound and we're going ahead with project developments in sensible phases that preserve value.

The Nagpur project is residential-led. By developing residential first we are creating a community of potential retail demand and unlocking cash flows that will allow us to build debt-light retail assets on adjacent land later, once residential has been established.

Our residential strategy is to fully develop the land infrastructure, clubhouse and gardens before we go to market to sell homes. Residential sales in Nagpur have received an overwhelming response to our design and quality as well as the facilities we are providing the residents.

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.

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.

## Valued Relationships

We highly value the experience and confidence of our partners and investors. Intu Properties plc, UK allow us to harness more than 36 years of invaluable 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 want to acknowledge our experienced and well-qualified professional teams in architecture, engineering, construction, project supervision, finance and accounting, marketing and sales for their consistent hard work and support. We also hugely benefit from relationships with our renowned consultants and contractors, who have the proven track records to deliver the best quality and disciplines into our projects.

Finally I want to thank you, our shareholders, for your continued support. 2015 will be the year we begin to see our investments bear fruit. It going to be a great journey ahead together and we've only just begun.

Sincerely,

Salil Chaturvedi  
Deputy Managing Director



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## CORPORATE INFORMATION

### Board of Directors

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

### Chief Financial Officer

Mr Anurag Garg

### 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 & Corporate Office

Prozone Intu Properties Limited  
CIN: L45200MH2007PLC174147  
105/106, Provogue House  
Off New Link Road, Andheri (W)  
Mumbai 400 053, India  
Website: [www.prozoneintu.com](http://www.prozoneintu.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@prozoneintu.com](mailto:investorservice@prozoneintu.com)