

# PURAVANKARA



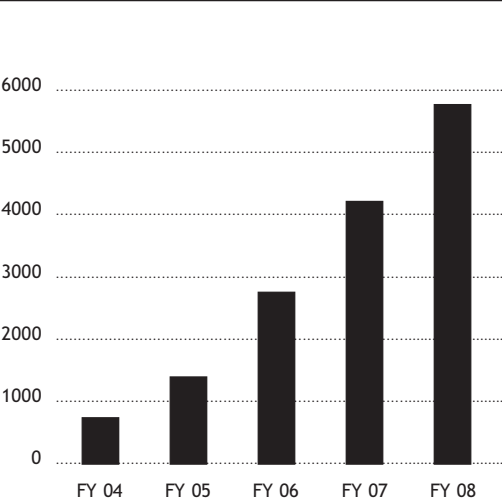
Annual Report  
2007-08

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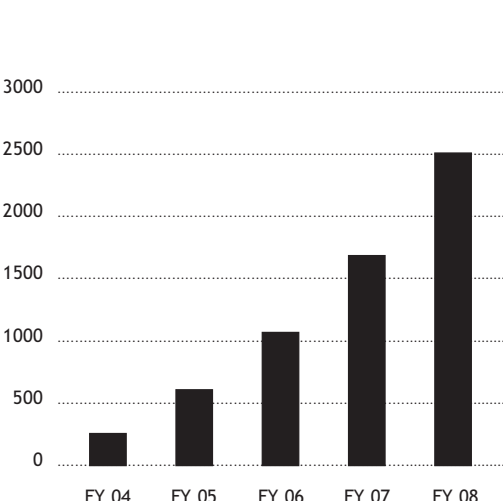
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# Key Performance Indicators

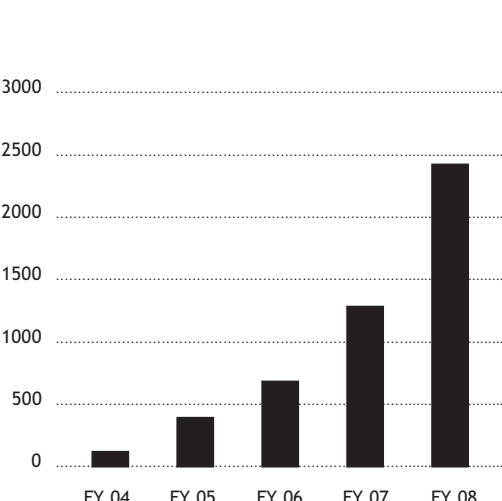
Revenue



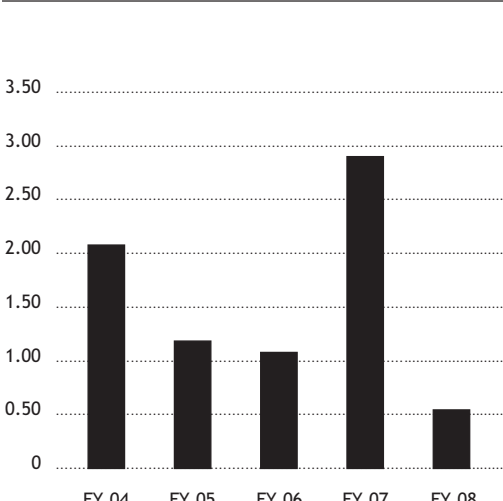
Gross Profit



Profit After Tax



Debt - Equity Ratio



All figures in Rs.million  
(Except Debt - Equity Ratio)

## Chairman's Message

Dear fellow Shareholders,

At the outset I wish to thank each one of you for making the Initial Public Offer a success. Subsequent to the IPO this is my first communication with you. The Puravankara Group commands more than three decades of construction and real estate expertise. Puravankara's operations cover Bangalore, Kochi, Chennai, Coimbatore, Hyderabad, Mysore, Colombo and the United Arab Emirates (UAE). Puravankara has also representatives in the United Kingdom and the United States of America. It commands more the priceless trust of customers, workforce and the society at large. Top-notch quality in construction and design is the hallmark of every Puravankara creation. From planning to materials, construction skills to customer relations, we at Puravankara seek excellence in all our business activities.

The latter half of 2007-08 was a turbulent period for the global economy. Towards the end of the year rising crude prices, fears of recession in the US economy and the likelihood of higher interest rates in the domestic market added concern to the general business outlook.

Reflecting its new confidence, India stood out in this volatile environment as beacon of hope, growth and prosperity. For Puravankara the year 2007-08 proved to be another landmark year. Reinforcing its leadership and setting new milestones, Puravankara's sales reached a record Rs. 5,640 million. Net profit for the year stood at Rs. 2,400 million.

India is marching ahead to become a global economic player. Sustained domestic growth with rapid urbanisation will bring exciting growth opportunities in both residential and commercial sectors. Accordingly, Puravankara has taken steps to pursue foray into affordable housing without compromising the quality and commercial projects consisting of shopping malls, commercial complexes and office premises. We have plans to expand into new businesses allied to our core real estate business. The existing scale of operations, our demonstrated project execution and management capabilities, strong cash flows and highly skilled human capital backed by sophisticated world class technology has created an unparalleled platform to pursue future development.

We are committed to the maximisation of value for all of you, our dear shareholders. We at all times are committed to enhancing the scale, competitiveness, efficiency and productivity of our business in line with contemporary international standards. We are confident that we will achieve greater scale in the pursuit of being the best in every activity we venture into.

I would like to thank each one of you for your confidence in us at Puravankara and your continued support.

**Ravi Puravankara**  
Chairman and Managing Director

# Management Discussion and Analysis - Background and Risks

## 1. Industry structure and developments

Indian economy has experienced GDP growth at the rate of 9% and above for the last 3 years in a row. In 2005-06, the economy grew at 9.4% followed by 9.6% in 2006-07 and the projected growth will be at a possible rate of 9.2% in 2008-09 (this is considering the fact that global economy is showing signs of slow down).

India is presently the second fastest growing economy in the world. Indian economy is steadily moving forward on its path to prosperity with economic development being the focal point of the progress. In the post liberalization era, India has attracted huge quantum of foreign direct investment on account of its excellent economic performance. Recently real estate sector has also been deregulated and liberalised. This has resulted in India emerging as an attractive investment destination in the world. Today India is seen as a prime destination for investment by overseas investors across the globe. India's favourable demographic and economic scenario makes it an attractive destination for the real estate investors. Construction is the second largest industry after agriculture in India.

Construction industry in India is an integral part of the development of Indian economy where substantial portion of investments take place through these activities. Construction industry is expected to grow at much faster rate due to increased economic development, urbanisation, industrialisation and infrastructure development.

The propellants for the real estate sector are:

- Growth in demand for housing.
- Strong demographic impetus: India has the second largest population in the world and the growth rate of population is still rapid.
- Rising FDI levels has increased commercial space requirements by foreign firms.
- Expansion of organised retail sector.
- Improvement in infrastructure
- Easy availability of finance.

The Indian construction industry recorded a consistent annual growth rate of 12% over last 10 years and is expected to grow at a higher level in future.

## 2. Brief Organisational Background

The Puravankara Group, headquartered in Bangalore, was established in 1975 and has today grown to become one of the leading real estate developers in India and the largest in South India serving the needs of a discerning clientele in the housing, commercial and retail spaces.

The Group began operations in Mumbai and has established a considerable presence in the real estate industry in the metropolitan cities of Bangalore, Kochi, Chennai, Coimbatore, Hyderabad, Mysore, Kolkata and overseas in Colombo and Dubai. Currently developing projects amounting to about 19 million sq.ft. and armed with an extensive and considerable land bank of 125 million square feet across India, the Puravankara Group is poised for exponential growth. Puravankara is currently constructing over 11,000 homes across South India and Kolkata.

Puravankara has the distinction of being the first to obtain FDI in the Indian real estate industry through its joint venture with Singapore based Keppel Land Limited, the property arm of the 54% government owned conglomerate, Keppel Corporation Limited. The joint venture company, Keppel Puravankara Development Private Limited, has on-going housing projects in two cities in India.

With a large and experienced team of engineers and technicians the Group has a unique and large in-house technologically advanced project management and construction capability. This together with a host of India's leading architects provides the organization with an experience, capability and expertise unmatched in the Indian real estate industry. Development activities range from modern designer apartments, through ultra modern and multi-functional integrated bungalow complexes, to plush and very functional commercial complexes.

India's first resident's privileges program, Purva Privileges, was launched in 2004. Purva Privileges entitles all Puravankara home owners to an attractive referral program, concierge services and a host of special offers.

The Puravankara Group has the distinction of being awarded the Finaliste, international Prix d' Excellence for its project "Purva Park" in Bangalore. This was in the group residential category, by FIABCI, Paris, the International Federation of Real Estate. Two prestigious projects, Purva Graces & Purva Heights, received a PA 1 rating by CRISIL.

### 3. Management Discussion on Risks and Concerns

Risk management is a structured approach to manage uncertainty related to a threat, through a process of risk identification and management process. In business enterprise, risk management includes the methods and processes used by organisations to manage risks related to the achievement of their objectives. Risk management typically involves the following process:

- Identifying particular events or circumstances relevant to the organisation's objectives
- Assessing them in terms of magnitude of impact
- Implementing all of the planned methods for mitigating the effect of the risks
- Clear assignment of responsibilities and accountability
- Management reporting
- Prioritise risk with regard to probability of its occurrence and magnitude of impact
- Monitoring the progress of monitor risk mitigation and control activities to ensure identified objectives are complete or in process. Monitoring should be ongoing, and the concerned should provide progress reports to management on a periodic basis.
- By identifying and proactively addressing risks and opportunities, business enterprises protect and create value for their stakeholders, including owners, employees, customers, regulators, and society at large.

## Management Discussion and Analysis - Background and Risks (continued)

Management has identified certain areas of risks where the Company is susceptible. Listed below are the various events and the possible impact with action to mitigate and control such probabilities.

### Company Specific Risks

No.	Inherent Risk Description	Business Process	Impact factors	Mitigation Measures
1	Uncertainty/Irregularity of titles to land acquired/ developed by the Company due to inadequate due diligence, forged documents, Joint Development partners not having clear titles to land, etc.	Land Acquisition	<ul style="list-style-type: none"> <li>• Inability to transfer title</li> <li>• Exposure to legal disputes and related costs thereto</li> <li>• Impact on Land Valuations</li> </ul>	<ul style="list-style-type: none"> <li>• Due diligence by independent legal counsel and in-house legal department</li> <li>• Representations/ Encumbrance Certificates</li> <li>• Advertisements /Public Notices in newspapers</li> <li>• Suitable monetary compensation to settle disputes</li> </ul>
2	Delays in completion of projects due to shortage of skilled labour, material, contractors and delays by contractors.	Project Execution	<ul style="list-style-type: none"> <li>• Higher construction costs</li> <li>• Impact on reputation/customer dissatisfaction</li> <li>• Payment of penalties to customers</li> </ul>	<ul style="list-style-type: none"> <li>• Increased usage of mechanised equipments</li> <li>• Supply of labour to outsourced sub-contractors</li> <li>• Dedicated Planning department</li> <li>• Penalty clauses for delay of work as stipulated in the Agreements entered into</li> </ul>
3	Inability to attract and retain employees due to increased opportunities in market, higher salaries offered by competitors and employee dissatisfaction with the Company policies / processes.	Human Resource	<ul style="list-style-type: none"> <li>• Loss of expertise and continuity</li> <li>• Higher recruitment and training costs</li> <li>• Delay in Project Execution</li> </ul>	<ul style="list-style-type: none"> <li>• Fast growing Company and opportunities are better</li> <li>• Site visits by the Human Resource Department</li> <li>• Defined appraisal system to provide career development and feedback</li> </ul>
4	Inadequate system security due to absence of secure transmission lines, inadequate access controls to Enterprise Resource Planning (ERP).	Information Technology	<ul style="list-style-type: none"> <li>• Loss/pilferage of confidential data / information</li> </ul>	<ul style="list-style-type: none"> <li>• In built security controls in the ERP system</li> </ul>
5	Non-compliance with requirements of labour laws together with relevant rules and regulations due to inadequate knowledge of requirements, absence of a mechanism to obtain assurance, unorganised nature of labour market, expansion into new geographies, etc.	Compliance	<ul style="list-style-type: none"> <li>• Fines/Penalties/ Imprisonment for non-compliance</li> </ul>	<ul style="list-style-type: none"> <li>• In house expert on relevant regulations</li> <li>• Use of external consultants</li> <li>• Periodic monitoring of checklists that list requirements of VAT, Service Tax, the Companies Act and Income Tax</li> <li>• System controls for tax compliance</li> <li>• Internal Audit function</li> </ul>

No.	Inherent Risk Description	Business Process	Impact factors	Mitigation Measures
6	Customer dissatisfaction with the sales processes due to over commitments / incorrect information provided by sales personnel, customisation requirements not being adequately addressed, delays in processing documents/agreements.	Sales and Marketing	<ul style="list-style-type: none"> <li>Customer dissatisfaction</li> <li>Loss of potential customers</li> <li>Shrinkage in growth/margin</li> </ul>	<ul style="list-style-type: none"> <li>Mock flats with standard specifications</li> <li>Adequate redressal system for property complaints</li> <li>Updates on progress of the project through website/emails</li> <li>Minimal customisation</li> <li>Projects are launched only after receipt of requisite sanctions</li> </ul>
7	Customer dissatisfaction with the after sales processes due to lack of a well defined customer redressal system, disputes over cancellation charges, inadequate property management.	Sales and Marketing	<ul style="list-style-type: none"> <li>Customer dissatisfaction</li> <li>Loss of potential customers</li> <li>Shrinkage in growth/margin</li> </ul>	<ul style="list-style-type: none"> <li>Dedicated Customer Care department. Target of 24 hours for acknowledging customer queries/complaints</li> <li>Cancellation charges clearly mentioned in the application forms and the Sale Agreements</li> <li>The Company handles Property Management for 6 months</li> </ul>
8	Inability to obtain financing on favourable terms due to downgrading of debt rating, liquidity crunch, etc.	Business Development	<ul style="list-style-type: none"> <li>Higher financing costs</li> </ul>	<ul style="list-style-type: none"> <li>In house Quality Control department</li> <li>Dedicated Planning department</li> <li>Increased use of technology</li> <li>Low outstanding on land payment</li> </ul>
9	Sub-standard construction quality due to dependence on third parties, absence of adequate number of quality structural consultants, sub-standard quality of raw materials, etc.	Project Execution	<ul style="list-style-type: none"> <li>Delay in project completion</li> <li>Impact on reputation</li> <li>Abortive costs</li> </ul>	<ul style="list-style-type: none"> <li>In-house construction &amp; quality team</li> <li>Use of snagging checklists</li> <li>Structure certified by Government authorised consultants</li> <li>Expert opinion from consultants</li> </ul>
10	New territory risks arising from uncertainty in the natural parameters, inadequate knowledge of local regulations, dilution of control, etc.	Project Execution	<ul style="list-style-type: none"> <li>Delay in project completion</li> <li>Impact on reputation</li> <li>Abortive costs</li> <li>Stay order by the court due to public interest litigations</li> <li>Project costs incorrectly estimated.</li> </ul>	<ul style="list-style-type: none"> <li>Expert opinion from consultants sought</li> <li>Centralised accounting, payments and procurement.</li> </ul>



## Management Discussion and Analysis - Background and Risks (continued)

No.	Inherent Risk Description	Business Process	Impact factors	Mitigation Measures
11	Reduced margins due to significant escalation in material, labour costs post project commencement/ ineffective planning, etc.	Project Execution	<ul style="list-style-type: none"> <li>Reduced margins</li> </ul>	<ul style="list-style-type: none"> <li>Selling strategy - only a certain percentage of apartments are sold upfront</li> <li>5% contingency margin in initial estimates</li> <li>Implementation of newer technology to reduce construction time</li> <li>Dedicated Planning department</li> </ul>
12	Inability to anticipate and respond to consumer requirements due to inadequate market research and analysis.	Business Development	<ul style="list-style-type: none"> <li>Lower demand for Puravankara properties</li> </ul>	<ul style="list-style-type: none"> <li>Direct sales</li> <li>'Know Your Customer Requirements ('KYCR') initiatives</li> <li>Analysis of buying patterns/ size of loan disbursements</li> </ul>
13	Loss due to theft, accidents at site, defects, etc.	Project Execution	<ul style="list-style-type: none"> <li>Financial Loss</li> </ul>	<ul style="list-style-type: none"> <li>Adequate insurance policies</li> <li>Security systems</li> </ul>
14	High network downtime resulting in unavailability of data.	Information Technology	<ul style="list-style-type: none"> <li>Unavailability of data</li> <li>Delays in payments that could result in delay in Project timelines</li> <li>Delay in providing information to customers/potential customers</li> </ul>	<ul style="list-style-type: none"> <li>Rollout of backup lines</li> </ul>
15	Inability to adapt to new technologies.	Project Execution	<ul style="list-style-type: none"> <li>Impact on quality of construction</li> <li>Delay in project completion</li> <li>Impact on margins</li> </ul>	<ul style="list-style-type: none"> <li>Key management personnel are abreast with latest technology</li> <li>Sophisticated world class technology already in use.</li> </ul>
16	Risk of capturing and/ or reporting incorrect / inaccurate financial information.	Financial Reporting	<ul style="list-style-type: none"> <li>Incorrect financial reporting</li> </ul>	<ul style="list-style-type: none"> <li>Centralisation of accounting system, procurement, payments</li> <li>Audit of controls</li> </ul>
17	Death of labourers / construction personnel on site due to non-adherence to safety procedures, non - enforcement of safety procedures.	Project Execution	<ul style="list-style-type: none"> <li>Delays in the project</li> <li>Compensation / Litigation Costs</li> <li>Impact on reputation</li> </ul>	<ul style="list-style-type: none"> <li>Workmen's insurance policy</li> <li>Workers employed through contractors are insured by the contractors</li> </ul>

No.	Inherent Risk Description	Business Process	Impact factors	Mitigation Measures
18	Presence of fly-by-night operators resulting in decreased demand for Puravankara properties.	Business Development	<ul style="list-style-type: none"> <li>Loss of potential customers</li> </ul>	<ul style="list-style-type: none"> <li>High quality of construction</li> <li>Established brand name</li> <li>Experience of 30 years</li> <li>Launch of affordable housing</li> </ul>
19	Issues with Joint Venture partner.	Business Development	<ul style="list-style-type: none"> <li>Impact on types of projects that the Company undertakes</li> <li>Growth</li> </ul>	<ul style="list-style-type: none"> <li>Clearly defined commercial terms</li> <li>Successful relationship for over three years</li> </ul>
20	Significant dependence on few members of the management / loss of key management personnel.	Human Resources	<ul style="list-style-type: none"> <li>Loss of experience/ expertise</li> <li>Loss of key relationships</li> </ul>	<ul style="list-style-type: none"> <li>Adequate systems and structure for smooth transition</li> </ul>
21	Inability to use acquired land for intended purpose due to non-compliance with permitted land uses, inability to transfer titles to land, etc.	Business Development	<ul style="list-style-type: none"> <li>Exposure to legal disputes &amp; related costs</li> <li>Delayed project commencement/ Project abandonment</li> <li>Surrender of excess land held over ceiling</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive Development Plan referred to</li> <li>Land in green zones/land not zoned is not purchased.</li> <li>Agreements to sell/Power of attorney in Company's favour</li> <li>Due diligence process</li> <li>All land purchases are approved by a special Committee headed by the Chairman of the Company.</li> </ul>