

# **SOBHA DEVELOPERS LIMITED**

## **PROFIT/LOSS A/C**

Report  junction.com

**AND**

## **BALANCE SHEET**

**2005-06**

## DIRECTORS' REPORT

Your directors have pleasure in submitting their Eleventh Annual Report of your Company.

The financial report for the year ending 31st March 2006 establishes Sobha Developers as the dominant player in Bangalore Real Estate market and one of the largest real estate developers in India. The current year performance is a reaffirmation of our belief that people are willing to buy homes, when International quality is made affordable.

### FINANCIAL RESULTS AND OPERATIONS:

Current year's operational result reflects Company achieving greater heights in terms of volume and sales figures. The Turnover has grown from Rs. 4651.86 million to Rs.6284.34 million, which is an increase of 35% over the previous year. Profit before Tax increased from Rs. 485.03 million to Rs 1067.24. Million, an increase of 120 % over the previous year.

The company has successfully completed many Real Estate projects viz; Malachite I,II, III, which are one of the finest Row Houses Bangalore has seen, along with other projects like Quartz, Aquamarine, Amber, Sunflower, and Orchid.

Several new projects have been launched during the year, viz. Sobha Aster, Sobha Iris, Sobha Lotus, Sobha Magnolia, Sobha Jasmine, Sobha Primrose, Sobha Dahlia, Sobha Daisy, Sobha Carnation, Sobha Daffodil and Sobha Mayflower.

It is no surprise, that our real estate wing has been able to sell over 2300 apartments in last financial year, which clearly establishes a leading march over our competitors in the same space. Apart from this, your Company was able to achieve a turnover of Rs. 2050 million on Contractual works of our leading Corporate Clients.

We expect that with new project launches made in 2005-06 will give a boost to the larger turnover in the year 2006-07.

The board takes pleasure in announcing that the company's capability in delivery has increased manifold and have been able to deliver over 3.9 million square feet construction during the year 2005-06. We take pride that we have been using the most modern tools, techniques & technologies available in the International Arena and our engineers are well versed in the their usage. They are well trained in Civil Engineering and project management skills, through regular in-house training and from external agencies to further shorten delivery schedules without compromising on quality in construction .

We are gearing ourselves as we progress, to accepting newer challenges and having our capabilities extended to deliver over 8 million square feet in the ensuing year by scaling up our operation.

During the year under review, we have successfully completed many projects for our prestigious client at Bangalore, Chennai, Hyderabad, Bhubaneshwar, Chandigarh, Pune and Mysore.

We have commenced the work at Mysore for one of our prestigious clients to construct around 4 million sq. ft. hostel complex. Apart from Mysore your company is executing several contracts at various centers, and we expect to execute over 10 million sq. ft. of contractual work in next two years by our contractual division alone.

We have commenced the production in the block making Unit located at Bommanasandra Industrial Estate, Bangalore, in December 2005, which we have imported from Germany. The fully automated unit has already reached 70% capacity in production within 3 months of its start and has been continuously working on double shift basis to cater to our real estate and contractual project requirements.

This totally sophisticated and automated unit with no manual handling procedures has given flawless and absolutely perfect blocks with highest strength parameters, reaffirming Sobha's quality standards and is now become a lofty goals & a role model for other block making unit manufacturers who supply to other construction companies.

In addition, we have set up a sophisticated Lab and R & D unit for testing quality of raw material used in the manufacture of Blocks. The lab is also equipped to test the finished block's quality as per international standards. Your company has achieved one more successful backward integration, with its drive for perfection and newer accomplishments.

We have placed order for a sophisticated Kerb plant from United Kindgom at the investment of Rs 70 million and is likely to be installed shortly adjacent to our block making unit. This plant is likely to commence production by July 2006. The Kerb plant will manufacture high quality Kerb slabs for roads and designer pavers slabs for foot paths/walkways, and will be mainly used for our in-house and contractual projects.

#### FINANCIAL RESULTS: (Rs. Million)

Particulars	2005-06	2004-05
Sales & Other Income	6284.34	4651.86
Profit Before Tax	1067.24	485.03
(-) Provision for Tax	182.40	138.53
Profit After Tax	884.84	346.50
(+) Profit Brought Forward	306.32	68.71
Profit Available for Appropriation	1191.16	415.21
(-) Preference Dividend Recommended & Tax thereon	6.97	0.04
(-) Interim Dividend Paid & Tax thereon	165.12	71.71
(-) Transfer to General Reserve	200.00	37.50
(+) Excess provision of Tax of earlier years	0.11	0.36
Profit carried to Balance Sheet	819.18	306.32
Earning Per Share ( In Rs.)	41.53	16.41

The Board had declared Interim dividend @ Rs 6.85/- per share during 2005-06 and currently Board is not recommending any additional & final dividend for the year 2005-06. Board recommends 7% dividend on Preference Capital for the year 2005-06. A sum of Rs. 200 Million has been transferred to General Reserve.

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### I. Market:

The year 2005-06 has witnessed continued buoyancy in Real Estate market, more specifically reflected in line with over all growth of Indian Economy. Since Real Estate / Housing Sector is now open to FDI investment opportunities, and active interest shown by overseas real estate / financing companies in the India Growth model, we see this will trigger further growth in Real estate activity all over the country.

With the Company's high standards in quality and timely delivery without compromising on basic principles of transparency and fairness, it has grown to be a dominant player in Bangalore.

We have recently witnessed a spurt in interest rates in Housing sector in the last few months. However we observe that the interest rates are affordable and your company does feel that this should not affect the long term perspective of the industry.

The market scenario is very encouraging in cities like Cochin, Chennai, Pune, Mysore and Delhi. We intend to expand our scale of operations to various cities and centers in India, keeping in mind the all round growth and demand seen in the real estate sector.

We believe that the recent trends of growth in Real Estate, is sustainable due to buoyancy shown in all sector of the economy.

## 2. Quality:

The quality in Construction is the lifeline of your company and imparted by your company in aspects of the product and service. The company's continued commitment to excellence, and its efforts to continually deliver quality in all its projects, has led to being recognized as leaders in its business. The company has ensured that it adopts cutting edge construction technology in all its activities.

At all its Project sites, the company has full-fledged state-of-the-art equipment, mostly imported from Germany. The company's strong emphasis on quality has led to employment of even German Engineers to conduct quality assurance activities under the direct supervision of Vice Chairman.

All engineers and site supervisors are regularly imparted training in the newer methodology and also in the use of latest tools and techniques in construction methods.

Significant Capital expenditure is being incurred by the company to ensure deployment of latest available technology in the areas of shuttering, formwork, plumbing and water proofing technologies. The emphasis is always on aesthetics, functionality, durability and quality of construction in all its activities.

## 3. Safety:

Safety and security of the personnel, assets and environmental protection are on top of the agenda of all Sobha Projects. Every activity is discussed with safety in mind, and every solution complies with our safety policy.

The company has a well documented technology manual, which clearly states the role of the project management team in implementing safety standards at the project sites. The company is also planning to go ahead with implementation of OSHAS 14001 and 18000 within the organization. This will improve already available consciousness towards environment and safety within the organization.

## 4. Human Resources Development

At Sobha, our Passion At Work translates into improving daily living and enabling our employees to reach her/his full potential. Several new initiatives have been taken by HR department to meet aspirations of employees, which include continuous training, work life balance, career advancement of supervisors by company-sponsored engineering course.

New techniques and training methodologies are being introduced to make employees more competitive to global standards in construction to meet the challenges of the future. In order to ensure the key principle "Learning and relevance", the company offers comprehensive world-class training in its "Sobha Construction Academy" for our tradesman and new entrants in the category of tradesman for imbibing the spirit of excellence, at the company's cost.

The Company encourages individuals to go beyond the scope of their work, undertakes voluntary tasks that enable them to learn, contribute their innovative ideas and deliver world class quality at unimaginable speed. They are also rewarded for their innovation in process, products and methods. A proper systematic evaluation systems is put in place, which enables Innovations gets translated into our daily operations.

The company has introduced several Award and incentives Scheme to maintain the high morale and recognition of exemplary and extraordinary performance by our employees. The above schemes and mechanism has significantly helped in retaining talented employees and also have great contributors in the high level of performance of the organization.

The company to meet the challenges of foreign participants in the construction industry with the opening of the FDI investment has taken steps to ensure that employees are exposed to the latest architectural and construction technology. Senior employees of the company have been sent abroad on study tours.

The company has grown in strength from 1183 numbers to 2125 numbers in the last year. The growth rate is almost 100 % over the last year staff strength. The budget for the training has been increased to more than Rs 5 million this year and with these initiatives the company is geared to meet the challenges. The company has initiated several steps to ensure that talented employees are retained with the advent of foreign players in the construction field.

## 5. Social Responsibility and Community Development

As a responsible corporate citizen, Sobha believes that its corporate responsibilities extend beyond its project sites and offices. The Company believes that for ensuring sustainable all-round growth, organization growth objectives needs to be in line with overall development imperatives of society and the community at large.

The Company encourages, funds and develops numerous education, sports, health, human capital, infrastructure initiatives. These initiatives are undertaken through various organizations, including corporate, trusts and individuals. The Company's commitment to corporate social responsibilities has received a firm footing through the Donation to a Trust, whose objective is to maintain a world class old age home at Kerala, helping the needy people at appropriate time.

The company strongly believes in welfare of its workers and tradesman who are not in its role, by contributing to their and their families' medical / personal requirements in case of emergencies.

Your company has donated a well equipped mobile Ambulance to NGO Sanjeevani a 24 hour emergency service available in case of accidents. The said mobile van has been stationed near our site to attend any medical emergencies. In addition, the company has started setting up full-fledged medical clinics with well trained para medics near the project sites, so that minor emergencies can be handled.

## 6. Plans:

The company launched 11 new projects in Bangalore adding over 4 million sq. ft. of real estate space in the booming Bangalore market in year 2005-06. Your company is very happy to inform that most your company's projects are sold out at the marketing phase itself. We expect that these new launches should add over Rs 11000 million to top line over period of next two years.

The Company's Real Estate Development is predominantly in Bangalore, which happens to be one of the fastest growing cities in India. The company is looking at growth opportunities viz in Chennai, Cochin, Mysore, Pune, Mumbai and New Delhi in near future. The land acquisition program has already commenced and your company should be able to launch projects in these cities by next financial year.

Company is looking at various options of growth and plans to enter into the area of Mall / Retail business for which it has identified 17 acres of land in Bangalore for joint development and will be called the Sobha Global Mall. This mall will be largest of its kind developed in India on a shoppertainment theme, having a plethora of shopping complex, amusement park, hotel, convention centre, multiplex, ice skating rink and multilevel car park. The Mall is being designed to park a whopping 4500 cars at a time. The Mall is in design stage and company expects to invest over Rs. 500 crores in the project in next three years. The mall is expected to be operational in the year 2008-09.

Your company has continuously launched many new projects to meet the requirements of various market segments in mind. Some of the apartments are priced at a launch price of Rs. 3.4 million. The company also plans land requirement in such a way that it has adequate rolling stock of land to meet the market and development leads.

The Board has initiated several steps to meet this ambitious growth targets by putting technology and people in place. During the year, staff strength has grown more than 100 % from the previous year, and current strength has crossed over 2500 employees. Board is very proud of employee's significant contribution & sincerely thanks them for the success of your company.

#### **7. Reorganization :**

With effect from 3rd April 2006 the company proposes to take over running business of Sobha Glazing & Metal Works Pvt. Limited, Sobha Interiors Private Limited and Sobha Space Private Limited. This has been done with view to consolidate backward integration process of your company's all business activities and improvement in value proposition of stake holders. Your Board has approved this reorganization and as such all business activities of these entities will be part of your company.

#### **8. Initial Public Offer.**

To fund the future requirements of land procurements, development expenses, construction expenses of various projects, and to have more visibility in the market, your company plans for IPO in the year to come. The Company has identified the Book Running Lead Managers to handle the issue. Management expects that, the shares of your company will be listed during the year 2006-07 in India's leading stock exchanges.

#### **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS / OUTGO.**

Your Company being engaged in Real Estate development activities with manufacturing activity, the Directors report on the Conservation of energy, Research and Development and Technology absorption is given below.

**Technology Absorption :-** The Company has successfully absorbed technology to manufacture concrete blocks imported from Germany. The plant is equipped with sophisticated programmable controls and operates with least manpower.

**Energy Conservation :-** The Company has successfully deployed capacitor bank to optimize energy usage and keep the power factor at levels near utility. The imported block making unit fitted with many motors, equipped with frequency converters that allow infinitely variable speed control which leads to lower energy consumption.

Foreign exchange outgo arising out of import of raw materials and other payments is separately given in Notes to accounts.

#### **PARTICULARS OF EMPLOYEE:**

Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975, as amended regarding employees, is given in Annexure A to the Directors Report.

#### **DIRECTORS:**

Col V K Balan and Mrs. Sobha Menon resigned from the Directorship of the Company during March 2006. Lt Gen. Mathew Mammen and Mrs. Sobha Menon have joined the Board during May 2006. We place on record our deep appreciation of the services rendered by Col. V K Balan during his tenure on the Board.

**DIRECTORS RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217 (2AA) OF THE COMPANIES (AMENDMENT) ACT, 2000**

The Directors hereby confirm:

- i. That in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii. That the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- iii. That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. That the directors had prepared the annual accounts on a going concern basis

**AUDITORS:**

M/s S. Janardhan & Associates, Chartered Accountants retire as the Auditors of the Company at the conclusion of ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

**ACKNOWLEDGEMENT:**

We take this opportunity to thank UTI Bank, Corporation Bank, ICICI Bank Ltd, Canara Bank, Dhanalakshmi Bank, HDFC, Andhra Bank, State Bank Of India, UCO Bank, Standard Chartered Bank SREI Infrastructure Finance Ltd. for their continued support. We also take this opportunity for all the suppliers, our workers, tradesman and in particular all the employees for their dedication and hard work in achieving the results for this year.

**By Order of the Board**

**J.C.Sharma**  
**Managing Director**

**Place :** Bangalore  
**Date :** 13th May 2006

### ANNEXURE A

Statement pursuant to Section 217(2A) of the Companies Act, 1956 and the Companies(Particulars of Employees) Rules, 1975.

Sl No	Name	Age	Designation	Gross Remuneration	Qualification	Total Experience	Date of commencement of Employment	Last Employment held	% of shares Held
1	Mr. P N C Menon	58	Chairman	18,515,681	Entrepreneur	30 Years	Since inception of the company	-	34.80
2	Mr. Ravi Menon	25	Vice Chairman	13,572,000	Civil Engineer Purdue University, USA	1 Year	June 6, 2004	-	0.01
3	Mr. J C Sharma	48	Managing Director	23,262,867	B. Com, ACA, ACS	22 Years	June 1, 2001	Grasim Industries Ltd	-
4	Mr. Rajan Nambiar	54	Director	3,737,849	DME, AMIE	33 Years	April 1, 1996	Oman Builders Pvt. Ltd	-

Note : Mr Ravi Menon is related to Mr P N C Menon

**AUDITORS' REPORT**

To  
The Shareholders,

We have audited the attached Balance Sheet of **M/s SOBHA DEVELOPERS PRIVATE LIMITED, BANGALORE**, as at 31<sup>st</sup> March 2006 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

- 1 As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the annexure, a statement on the matters specified in paragraph 4 and 5 of the said Order.
- 2 Further to our comments in the Annexure referred to in paragraph 1 above, we report that:
  - 2.1 We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
  - 2.2 In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.
  - 2.3 The Balance Sheet, Profit and Loss Account and the Cash Flow statement dealt with by this report are in agreement with books of account and returns.
  - 2.4 In our opinion, the Balance sheet, Profit and Loss Account and the Cash Flow statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
  - 2.5 On the basis of written representations received from the directors, as on 31<sup>st</sup> March, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31<sup>st</sup> March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
  - 2.6 In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required, give a true and fair view in conformity with the accounting principles generally accepted in India:
    - a In the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2006 and
    - b In the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date.
    - c In the case of the Cash flow statement, of the Cash Flows of the Company for the year ended on that date.

For **M/s S. JANARDHAN AND ASSOCIATES**  
CHARTERED ACCOUNTANTS

PLACE BANGALORE  
DATE 13<sup>th</sup> May 2006

**(B. ANAND)**  
PARTNER  
Membership No.: 29146