



SOBHA



Building Resilience

Annual Report 2008-09



Building Resilience

Bamboo is a great symbol of resilience. Its unique ability to bend in the breeze and flex under extreme pressure makes bamboo a natural survivor.

The global financial and economic downturn blew strong and turbulent winds that hit India's stock markets, financial institutions, and industries and has affected the country's economic progress. Organizations have to cope with the reduced confidence and trust of their stakeholders, an uncertain and cautious consumer, and more costly and limited access to funds. These factors combined have triggered a test of resilience.

Sobha's inherent strengths and single-minded focus on continuous improvement are our key drivers during these testing times. A dynamic strategy, the positive capacity of our human resources, superior product quality and total commitment to timely delivery, a customer-centric approach, and value engineering are some of the fundamental strengths that contribute to our resilience.



Resilience through our Strategy



Sobha Developer's long term strategy comprises of four critical elements:

- To procure the required quantum of land on a timely basis at the right price with the perfect legal requirements of titles, etc.
- To obtain all statutory approvals in time
- To achieve our targeted sales and support the customer through our highly trained and motivated Marketing, Sales and CRM teams
- To produce products/projects having the highest quality standards taking into account the parameters of cost, time and safety.

Though the fundamental tenets of our strategy remain unchanged, the global recession and its impact on the real estate sector as a whole has made it necessary for us to take specific initiatives as follows:

- a) Restructuring of short term debts to long term debts so as to reduce the pressure resulting from the liquidity crunch. Also, initiated steps to infuse additional equity which will reduce the debt equity ratio to the desirable level.
- b) Revival of Sobha products, which had registered a decline due to the slowdown, with aggressive marketing and innovative offers.

c) Launch of tailor-made projects for groups of customers. Also working on the concept of affordable housing to reap the benefits of its brand image by focusing on middle class clients in prime locations.

d) Successful execution of various contractual projects with reputed clients thus establishing our competency and capability. The gap in income due to the slowdown in real estate to be bridged through contractual income.

e) Sale of plotted development land which has been well received by our customers. Our strong land bank in various strategic locations will assist in quick launching of projects once the economy revives. Also plan to liquidate non-core assets to help improve cash flow.

f) Comprehensive assault on costs through value engineering and innovation. Have been able to attract new clientele by passing on the benefits of cost reduction to our customers.

The above measures have enabled us to manage the crisis efficiently and helped us to refocus on what is critical for the organization.

Positive capacity and resilience of a Sobhaite



Training and development of employees is one of the vital areas that we have focused on as we manage through these tough times. It is by having the right staff with the right attitude and skills that we have been able to successfully weather hard times: our people are our strength to innovate and to transform short-term adversity into long-term opportunity and advantage. Training has a powerful impact on the productivity, performance and commitment levels of our staff. It helps us to re-energize and re-engage the workforce, build employee trust, retain top performers, improve productivity and commitment levels. Training is carried out in a manner that gives employees the knowledge, skills and motivation required to do their job well and achieve their goals. The importance we give to building the capabilities of our people to meet the real needs of the business through training and development gives our organization a strong competitive advantage. The use of competency frameworks is now well embedded in our Performance Management System and there is clear scope for extending their usage as a mechanism for identifying the learning needs of individual employees.

The changing economic scenario has thrown up new challenges to organizations. In our organization we started by identifying the optimum number of employees needed to function efficiently and making sure they have the right resources to be effective. Employees have been given responsibility for a broader set of functions resulting in enrichment of their job design. Replacement positions are being filled through internal transfer of people who are already employed, and process improvements are undertaken

to help reduce costs by more efficiently deploying resources.

Through an innovation platform, we create the opportunity for employees to incorporate what they are passionate about in their day-to-day work. This makes them much more excited about their work and has a positive impact on the quality of their work which in turn benefits the organization. The results can be seen by way of increased efficiency, better customer service and reduced cost.

Optimizing the resources at our disposal is aimed at drawing the best out of our employees. Besides enhancing the capability and resilience of our human resources pool, a close look at effective utilization of machines, especially power tools, was taken up last year. Shortcomings like downtime of machines for want of repairs and inadequate availability of tools have been tackled by recruiting qualified and trained mechanics to provide immediate help. This has had a salutary effect on increasing the overall productivity of our tradesmen.

Our employees have, during the current economic turmoil, shown exemplary resilience in adapting to the new work culture, putting in extra efforts, taking on higher responsibilities and above all, individualizing and displaying the resolve of the organization to succeed against all odds. During this process they have ignored personal losses and inconveniences. By doing this they have once again demonstrated that the organization they work for indeed belongs to them.

Product quality and execution : Building Resilience



At Sobha, our focus has always been on seamless construction quality and excellence in delivery. We have envisioned an open forum that promotes and challenges the quality-driven execution process. We are in a unique position to do this because of our manpower strength and the backward integration of several production facilities, construction machinery and the internally developed online Quality and Safety Evaluation System.

Against the backdrop of the economic turmoil of 2008-09, we have made an all out effort to identify the areas of weakness in the Company's key operations, i.e. design and construction of residential and commercial complexes. Two crucial areas were waterproofing and concrete technology where we focused on developing in house standards with standardized drawings, materials and mix design. The in house quality check procedure for apartments and common areas has been standardized further and enforced.

On our projects, we encourage new ways of combining different resources – human, technological and capital – along with rational and environment friendly construction technologies and design. The interplay between them generates new ranges of lifestyle products which are backed up by and interlocked with our execution and delivery capability, quality consciousness and backward production to give our customers a complete 'quality home'.

All our energy has been focused on achieving our ultimate goal "timely delivery with quality at acceptable cost" and foolproof safety. The challenge, tough at any time, became even tougher due to the global slowdown when we were forced to cut down on our work force as well as tradesmen. We took this challenge as an opportunity, firstly, to retain the most committed work force and, secondly, to introspect and build an organization which is lean yet effective so as to ensure the implementation of our guiding

parameters. The result is the new 'Foreman Model' of delivery. In this, we have exploited the vast hands-on experience, total commitment and eye for detail of our experienced and trained foremen in various trades. The major impact has been in achieving the desired quality even while reducing the overall requirement of staff.

Prioritizing projects, i.e., rescheduling various activities in selected projects, was another area we looked into to make up for the reduction in work force and decreased availability of material. A strict control on our existing inventory and careful allocation to priority projects helped us to not only tide over the difficult situation but also minimize the impact on our delivery schedules. Stacking time of materials has been reduced, thus, reducing inventory and unlocking funds. A central team monitors the stock of important and high value items on a weekly basis and moves materials across projects to ensure minimal inventory cost and to ensure that priorities are met. Some of the measures taken are:

- Changing of specifications without compromising on quality and commitment, to consume excess materials procured, if any.
- Successful implementation of bin card system across stores for better efficiency in the procurement and stacking process.
- Monthly review of the value of stock on a weekly basis at the site and on a monthly basis along with senior managers.

Our delivery team has also risen to the occasion and warded off all the negatives of the recession by maintaining the schedules of delivery and quality, optimally stretching the available resources for cost effective execution, scrupulously cutting down wastages, resorting to innovations. Increased implementation of productivity linked payment to the tradesmen in additional projects is yet another attempt at optimizing available resources and achieving cost reduction. The entire delivery team is totally committed to timely delivery with top class quality, desired cost and safety.

Resilience from Customer Orientation



The real estate business is not just about selling; it is about managing an excellent relationship with customers and giving the best customer service possible. At Sobha, our sales strategy is that the best brand ambassadors are our existing customers. Towards this end, we have focused on Customer Relationship (CRM) as one of our key result areas. We have a separate Customer Relationship Management department, wherein a CRM Executive is assigned to the customer right from the day the apartment is sold till its final handover and registration. Thus, a single window service is provided for all the customer's requirements. After all, as studies have shown, a happy customer is the best salesman.

The CRM department performs the following functions:

- To act as a single point contact with the customer.
- To assist in the preparation of the Sale and Construction Agreements and their execution by the customer.
- To keep the customer posted about the progress of the project and the payment schedules.
- To co-ordinate site visits and respond to all queries raised by the customer.
- To hand over the apartment to the complete satisfaction of the customer.
- To assist the customer in obtaining a home loan.
- To assist the customer in the registration of the apartment and all documentation.
- To hand over documents like Possession Letter, Final Statement

of Accounts, drawings, Handover Certificate and Title Documents of the apartment.

As part of our customer service, we also have the Customer Care Cell which records all complaints and feedback from customers, ensuring continuity of our customer interface. The Cell registers, monitors and audits customer complaints and assists in closing all complaints to the customer's satisfaction. Complaints are allocated to the concerned department - Customer Relationship Management, Quality Maintenance or Facility Maintenance - depending on the nature of the complaint. Regular feedback and timelines are given to the customer at various stages of the complaint redressal. The Quality Maintenance and Facility Maintenance departments provide strong support to the customer and the residents' association during the warranty maintenance period of one year on completion of the project; all the maintenance works are taken care of by these two departments. This whole arrangement forms the backbone to offer strong quality support to each and every customer and aims at achieving high levels of satisfaction for all our customers.

Over the years, it has been our experience that this concept of Customer Relationship Management, where the customer has a single window to attend to all his problems with regard to his home, has paid rich dividends by way of referral sales.

Value Engineering : A tool for resilience



“Value analysis is a system for use when better than normal results are needed” according to Lawrence D. Miles, considered the father of Value Engineering.

Sobha Developers recognizes the need for the prudent use of resources while delivering quality homes. Value engineering (VE) is one of the most effective management techniques known to identify and eliminate unnecessary costs in design, construction, maintenance, procedures and practices in order to achieve improved design, construction, and cost-effectiveness in various project parameters.

During a VE study, a multidisciplinary team suggests alternatives and improvements to the design, construction activity, procedures or process. Periodical review and analysis is also undertaken to ensure that the processes and procedures established are maintained effectively to provide the intended benefits. The successful implementation of the VE program has resulted in savings in the life cycle cost of the project. The additional benefits

derived were constant updating of standards and policies, accelerated incorporation of new materials and construction techniques, increased skills obtained from team participation, and employee enthusiasm from participation in organizational decisions. Ideas that come through our innovation campaign are also taken for VE study and the feasible ones are considered for implementation.

The culture of Value Engineering is being disseminated throughout our organization through various levels of training conducted by both external and internal trainers.

SDL is the only organization from the Indian construction industry associated with the Indian Value Engineering Society (INVEST). A dedicated VE department supported by 4 Associate Value Specialists continues to work proactively to analyze and incorporate appropriate cost-effective changes for designs and project execution.

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Letter to the shareholder



Dear Shareholder,

It is my privilege to present to you the 14th Annual Report of Sobha Developers Limited for the financial year 2008-09.

The year witnessed unprecedented events globally on the economic front. What started as the sub-prime crisis in the US soon engulfed the entire world economy leading to severe recession, worst since the Great Depression of the '30s. India, despite its cautionary economic policies has been no exception. Real Estate industry has been one of the worst affected by the recession. A highly levered sector was caught in a vicious cycle when lenders tightened their purse strings and cost of borrowing increased.

Sobha has had a positive cash flow throughout the year. However with the credit crunch in the market coupled with a gearing of 1.74, liquidity has become critical. This has been further aggravated by a steep reduction in sales as customers started deferring property purchase decisions expecting price corrections.

The extraordinary situation demanded extraordinary measures. Sobha has shown exemplary resilience in adapting to the changed scenario and has initiated aggressive measures such as (a) inviting new investment at entity/ SPV level, (b) rescheduling the debt portfolio, (c) offering non-core land holdings for sale (d) offering innovative and improved products through our highly trained delivery and quality teams, (e) presenting the cost conscious customer 'value for money' products through value engineering and cost optimization, (f) creating a new portfolio of products including affordable homes with undiluted quality, (g) rationalizing manpower resources and motivating them to take on additional responsibilities - the response from the dedicated Sobha team has been marvelous; the ease with which this has been accomplished demonstrates that sincerity of purpose and appropriate communication can draw the best out of people in crisis situations, (h) aggressive sales push through innovative marketing and (i) renewed customer orientation and focus. We have initiated all the above steps while continuing our operations without disruption to the progress of the projects.

The results of the above actions have started bringing in positive changes in the operations. The financial results bear only partial testimony to this. I am confident that in the years to come our actions will translate into better numbers.

I feel that the economic revival is not too far away and 2010 will see a resurgence of the markets. Thanks to the measures initiated by Government of India to boost economic growth, inflation has been brought under control and liquidity improved. The new Government is widely expected to push the economic reforms aggressively leading to economic stability and growth. It is well appreciated that the stability of the realty sector is extremely crucial for general economic growth. The sector's strong capacity to create large number of jobs needs to be underscored.

Sobha, with its cutting edge quality bias, innovative product range, adherence to legal perfection and ability to deliver projects on schedule, will be one of the biggest beneficiaries of an economy on its path to recovery. It will be amongst the foremost real estate players to take full advantage of the impending turnaround.

The global economic crisis has its silver linings too. It has sprung unknown challenges to governments and corporations. Resilience marks the leader from the rest. Resilience is so intrinsically related to the day-to-day ethos of the organization that it can create significant payback in terms of helping to refocus on what is important to the organization and its people. Sobha has demonstrated its resilience now more than ever.

I consider the interests of our shareholders paramount. I look forward to your continued support in our relentless pursuit for excellence.

Place: Bengaluru
Date: May 18, 2009


P.N.C. Menon
Chairman