The Phoenix Mills

Taking wing

CMP	TARGET	RATING	RISK
Rs 177	Rs 223	BUY	MEDIUM

BSE	NSE	BLOOMBERG
503100	PHOENIXLTD	PHNX IN

- **Moving towards an earnings model:** The Phoenix Mills (PML) is a mid-size real estate developer operating across the retail, hospitality and commercial segments. The company is developing over 43.5mn sq ft (msf) of space and follows a highly capital-intensive business model of asset ownership and lease. It is likely to pursue this asset-heavy model for the next couple of years or until its SPV projects (under EWPDL and PHCPL among others) become debt-free. Most of its projects are scheduled to become operational by FY11. The company will use the generated rentals to first pay off debt, after which earnings will flow from the SPVs to PML in the form of dividend or sale of assets at higher valuations.
- **High Street Phoenix – a money spinner:** High Street Phoenix (HSP) in Lower Parel, Mumbai is the largest market city mall in the elite South Mumbai district, boasting record footfalls and close to 100% occupancy. This flagship property of PML is being developed over an area of 3.1msf in four phases. At present, 0.65msf or two phases are operational (excluding parking space).

  PML generated Rs 900mn in lease income from HSP in FY09. We expect inflows of Rs 1.3bn in FY10 post commencement of the third phase in October '09 (a 400,000sq ft luxury mall called Palladium), which will take the operational area at HSP to ~1msf. With a cumulative lease area of 3.1msf on completion of all the four phases, the company will have an FSI of more than 4x. HSP is expected to drive earnings for the company and accounts for 53% of its gross asset value.
- **Emphasis on execution:** PML has a project portfolio aggregating 43.5msf, of which its market city projects (large-format mixed-use retail space) comprise 12.3msf and projects under its strategic partner, Entertainment World Developers (EWDPL), total 15.1msf. Its market city projects and 8–9 mall properties under EWDPL are likely to be operational in the next couple of years, reflecting an execution-heavy model. This scaling up of execution will bear dividends once the properties become fully operational.
- **Financial closure in place:** The company has secured financial closure for all its projects under construction by raising funds through domestic and international strategic investors. This will help it expedite project development and avoid uncertainty amid the slower economic growth cycle.
- **SOTP target of Rs 223:** We have an SOTP target of Rs 223 for the stock which includes Rs 203 as the aggregate value of PML's projects, Rs 20 for investments in subsidiaries and other quoted investments, and Rs 14 for application money paid towards a stake acquisition in hospitality chain, PHCPL. Excluding net debt outstanding as on FY09, we arrive at a one-year forward fair value of Rs 223.

Company data

Market cap (Rs mn / US$ mn)	25,638/527
Outstanding equity shares (mn)	145
Free float (%)	40.9
Dividend yield (%)	0.6
52-week high/low (Rs)	185 / 44
2-month average daily volume	360,987

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Phoenix Mills	177	38.8	31.9	240.8
Sensex	16,016	5.6	9.2	92.4

Valuation matrix

(x)	FY08	FY09E	FY10E	FY11E
P/E @ CMP	59.9	33.4	26.2	16.7
P/E @ Target	75.5	42.1	33.0	21.1
EV/EBITDA @ CMP	58.2	48.5	29.1	12.5

RHH vs consensus

Parameter	FY10E		FY11E	
	RHH	Cons	RHH	Cons
Sales (Rs mn)	1,507	1,367	3,564	1,967
EPS (Rs)	6.8	6.1	10.6	7.9

Financial highlights

(Rs mn)	FY08	FY09	FY10E	FY11E
Revenue	821	996	1,507	3,564
Growth (%)	*(17.0)*	*21.3*	*51.2*	*136.5*
Adj net income	428	767	978	1,533
Growth (%)	*6.5*	*79.3*	*27.5*	*56.8*
FDEPS (Rs)	3.0	5.3	6.8	10.6
Growth (%)	*6.5*	*79.3*	*27.5*	*56.8*

Profitability and return ratios

(%)	FY08	FY09	FY10E	FY11E
EBITDA margin	61.0	60.4	66.5	65.7
EBIT margin	51.7	51.0	59.1	59.0
Adj PAT margin	52.1	77.0	64.9	43.0
ROE	6.2	5.5	6.4	9.6
ROIC	3.4	2.5	3.3	6.6
ROCE	4.5	4.4	4.7	6.2

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Investment rationale

HSP on completion

Key facilities

- 400-room 5-star Shangri-La hotel
- 60,000sq ft lifestyle club house
- 7-screen multiplex with 2,000+ seating
- 400,000sq ft luxury mall (Palladium)
- 45,000sq ft auto mall
- 1msf car park for 3,000 vehicles

Source: Company, RHH

High Street Phoenix (HSP) – a money spinner

HSP in Lower Parel, Mumbai is the largest market city mall in the elite South Mumbai district, boasting record footfalls and close to 100% occupancy. This flagship property of Phoenix Mills (PML) is being developed over 17.3 acres in four phases, and will have a saleable area of 3.1msf. A total of 13.3 acres is freehold land owned by PML while the balance is subject to a 999-year lease from the Municipal Corporation of Greater Mumbai.

Phase I and II, comprising ~1.4msf of residential, retail and entertainment, commercial and parking space, have been successfully completed. Upon completion of the final two phases of development, HSP will bring in an additional 1.8msf of space, including a five-star deluxe hotel managed and operated by Singapore-based hotel chain, Shangri-La, and a 7-screen multiplex run by PVR. The third phase covering 0.45msf is expected to become operational in October '09, while the fourth is still in the early stages.

Fig 1 - Phase-wise development of HSP

Phases	Type	Area (msf)	Remarks
Phase I	Residential	0.35	❖ 160 units developed – 142 sold
	Retail and Commercial	0.25	❖ Includes 0.19msf of a 'Courtyard' area comprising a hypermarket, restaurants, coffee shops and ice cream parlours (Barista, Baskin Robbins, McDonalds, Dominos, Sports Bar, Big Bazaar, The Spaghetti Kitchen)
	Retail	0.15	
Phases II	Retail and Entertainment	0.30	❖ High-end branded stores (Marks and Spencer, Lacoste, Pepe, Nike) and Skyzone, a retail area targeting young consumers. Anchors are Lifestyle and Pantaloon
Phase III	Retail	0.05	❖ Grand Galleria, a high-end retail space which includes clients like Croma, Bosch and Café Coffee Day
	Retail (Palladium)	0.35	❖ A 400,000sq ft mall currently under construction; likely to become operational in October '09
	Retail and Entertainment	0.05	❖ Leased to multiplex chain, PVR, for a consideration of Rs 490mn for 900 years
Phase IV		NA	❖ Planning yet to commence
Total		**1.15***	

Source: Company **Excluding Residential space*

Lease income from HSP to increase 45% to Rs 1.3bn in FY10

PML earns an average rental realisation of Rs 134/sq ft per month from HSP, with Grand Galleria – a high-end retail space – launched in May '09 garnering average rentals of Rs 260/sq ft. The company generated Rs 900mn in lease income from HSP in FY09. We expect inflows of Rs 1.3bn in FY10 post commencement of the third phase (largely comprising a 400,000sq ft luxury mall called Palladium) in October '09, which will take the operational area at HSP to ~1msf. With an aggregate leasable area of 3.1msf on completion of all four phases, the company will have a floor space index (FSI) of more than 4x. HSP is expected to drive earnings for the company and accounts for 53% of its gross asset value (GAV).

Fig 2 - High Street Phoenix

Source: Company

Financial closure achieved for all ongoing works

Timely project funding mitigates risk

Phoenix Mills (PML) follows a business model of asset ownership and lease, which is highly capital intensive in nature. The company has raised funds at regular intervals both at the holding company and SPV level by successfully roping in strategic investors at the early stages of project development. This ensures a comfortable funding position along with dilution of risk. PML has secured financial closure for all projects under construction. This will help it to expedite the development process and avoid uncertainty amid the slower economic growth. Key investors in ongoing projects include HBS Realtors, Horizon Venture, Yatra and IL&FS.

Fig 3 - PML-level dilution

	Shares issued	Face value	Premium	Rs mn
FY08	1,985,756	10	1,590	3,170
FY08	4,900,000	10	1,990	9,800

Source: Annual Report

Market city projects over 12msf and 8–9 EWDPL malls to become operational within the next couple of years

Massive ramp-up in project execution

PML (including merged and acquired companies) is currently developing 43.5msf of space across the commercial, retail and hospitality segments, with a special focus on retail. Of this, the company owns 14.7msf (excluding the Shangri-La hotel), while the balance is being developed via SPVs and subsidiaries. So far, the company has developed 1.5msf in HSP (including parking) while 0.6msf has been executed through its Indore-based strategic partner, Entertainment World Developers Pvt Ltd (EWDPL). PML holds a 40% stake in EWDPL, a tier II city-centric developer engaged in the construction and operation of mixed-use retail centres and townships.

Over the past couple of years, PML has focused on strengthening its asset base and stepping up the pace of project execution, both at the entity and SPV level. In HSP, the third phase covering 0.4msf, excluding the PVR multiplex, is almost complete and is likely to become operational in October '09. Market city projects (large-format mixed-use retail space) under development cover 12.3msf and are likely to be complete by FY12, barring the residential portion. At EWDPL, the total developable area is 24.5msf, of which 15.1msf is under construction. In all, the company will build ~17 mall projects in the tier II cities of Raipur, Jabalpur, Bhilai, Nanded, Udaipur, Chandigarh, Trivandrum and Indore.

Set to transit to an asset-light, earnings-driven model as lease rentals kick in

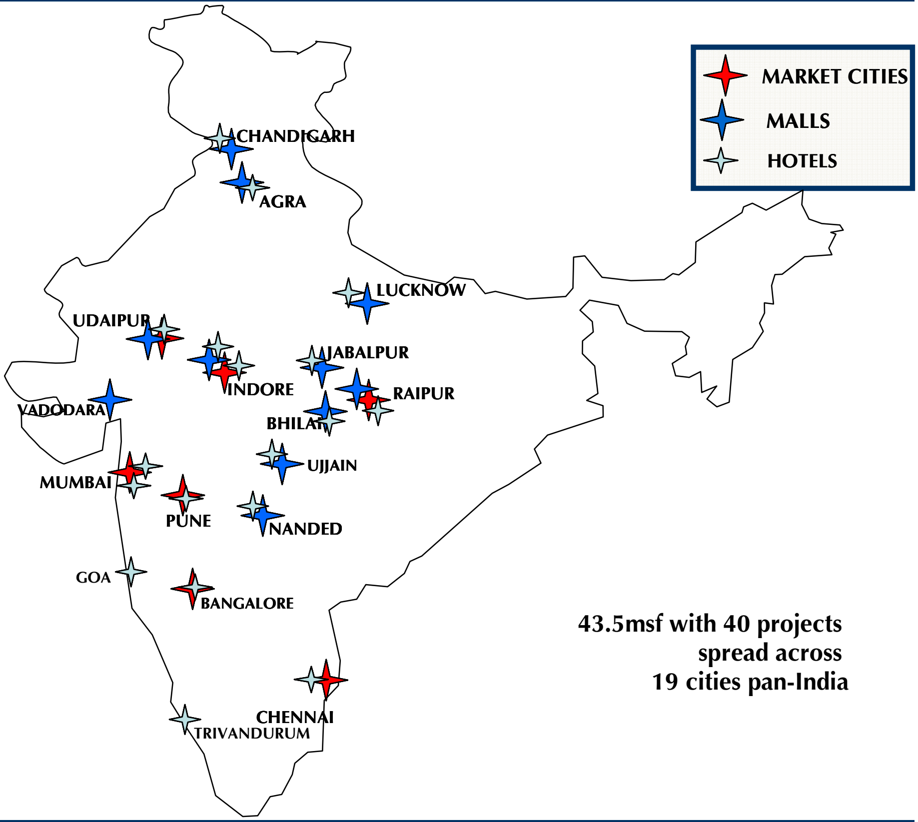
With its market city projects and 8–9 mall properties under EWDPL scheduled to become operational within the next couple of years, we expect PML to reap rich dividends as project completion will coincide with an expected resurgence in economic growth. The company is likely to pursue its asset-heavy model for the next couple of years or until its SPV projects become debt-free. Thereafter it will transit to an asset-light, earnings-driven model. Most of its properties are scheduled for completion within one or two years. PML will use the generated rentals to first pay off debt, after which earnings will flow from the SPVs to the company in the form of dividend or sale of assets at higher valuations.

Fig 4 - PML's project portfolio

Project (msf)	Total	Retail	Commercial	Residential	Parking area	Stake (%)
High Street Phoenix	0.6	0.6	-	-	-	100
Mumbai – Kurla	3.4	1.4	1.2	0.0	0.8	25.5
Bengaluru	2.3	0.8	0.0	0.6	0.8	28.1
Chennai	2.1	1.4	0.0	0.2	0.5	28.9
Pune	2.5	1.4	0.4	-	0.7	50.5
Banglore (GKW)	1.5	0.7	-	-	0.8	70.0
Banglore (GKW) - residential	0.9	-	-	1.2	0.3	70.0
Indore (MR 10)	3.7	1.5	0.7	-	1.5	27.0
Chandigarh	0.8	0.5	-	-	0.2	41.0
Bhilai	0.8	0.5	0.1	-	0.2	14.0
Jabalpur	1.0	0.5	-	-	0.5	31.0
Raipur	1.2	0.9	-	-	0.3	41.0
Udaipur	2.3	1.0	0.0	0.7	0.6	41.0
Raipur	3.5	0.6	0.4	2.0	0.5	13.5
Nagpur	1.0	0.7	-	-	0.3	41.0
Trivandrum	2.6	1.1	-	0.9	0.7	37.0
Udaipur	1.2	-	-	1.1	0.2	41.0
Kanadia	1.8	-	-	1.8	-	41.0
Bijalpur	8.3	0.6	-	7.7	-	27.0
Vadodara	0.4	0.3	-	-	0.1	21.0
Nanded	0.3	0.2	-	-	0.1	31.0
Ujjain	0.4	0.2	-	-	0.1	21.0
Indore (RNT)	0.4	0.3	-	-	0.1	21.0
Total	**43.5**	**14.7**	**2.8**	**15.5**	**9.4**	

Source: Company

Fig 5 - Ongoing and Proposed projects



Source: Company, RHH

City-centric projects lock in anchor clients

Strong brand equity with the success of HSP drives demand traction from anchor clients

The successful launch of HSP has led to the creation of strong brand equity for PML, driving demand traction from anchor clients. HSP was instrumental in popularising large-format, retail-led, mixed-use development in central locations. Such market city projects are a one-stop shop for consumers offering malls, office space, hotels, and entertainment avenues such as night clubs, gaming zones and food courts. Projects of this nature favourably alter the real estate dynamics of their surroundings, attracting further demand from anchor clients.

The company is expected to launch market city malls at key cities such as Mumbai, Pune, Chennai, Bengaluru and Raipur within the next couple of years. The first off the mark will be a mall at Kurla in Mumbai, which is scheduled to become operational by June '10. PML has already leased out more than 30% of this project.

Fig 6 - Market city projects

Location	Functional date
Mumbai	June 2010
Pune	June 2010
Bengaluru	September 2010
Chennai	March 2011
Raipur	December 2011

Source: Company

EWDPL to have 1.9msf of mall space onstream by end-FY10

EWDPL, which operates under the *Treasure* brand, currently has two malls covering 0.6msf in Indore, namely MG Road mall with occupancy levels of 85% and average rentals of Rs 42/psf (launched in May '09) and Treasure Centra with 95% occupancy and rentals of Rs 34/psf (launched in December '05). We expect three more malls to be operational by end-FY10 at Nanded, Ujjain (both ready for fit-outs) and Raipur (advanced construction stage), with an average occupancy of 70%. This would elevate the mall space at EWDPL to 1.9msf.

Five-star hotel at HSP to become operational by end-2010

Hospitality projects to deliver value

PML's strategy in the hospitality segment is to build hotels as an integral part of its mixed-use development projects. The company will build and own the properties while hotel management will be handed over to professional groups. PML is currently setting up a five-star hotel in HSP, held by its wholly-owned subsidiary Pallazio Hotels & Leisure, to be operated by Shangri-La – a Singapore–based hotel management company.

Shangri-La will manage and operate the hotel for an initial term of 20 years, which may be mutually extended for two further terms of five years each on the same conditions. Shangri-La will receive a base fee of 1.25% of gross operating revenue during the first three year of operation and 1.75% thereafter. It will also earn an incentive management fee of 5% of the achieved gross operating profit during the first three years. The hotel is expected to be operational by the end of 2010.

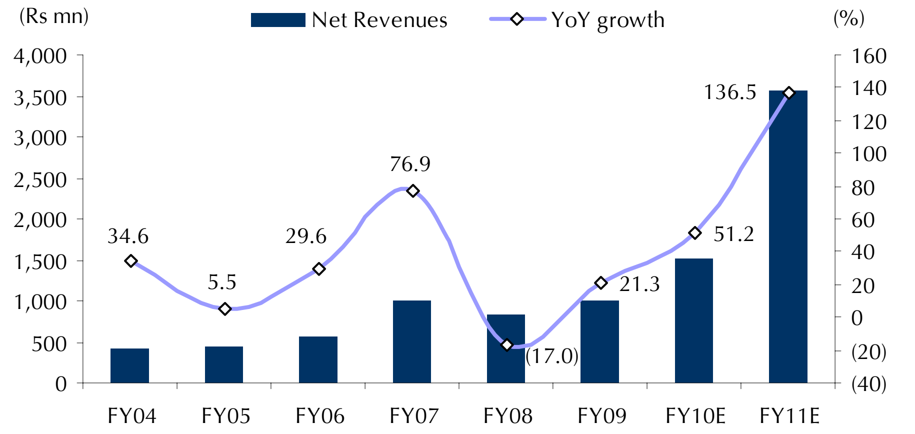
Financial overview

Launch of 400,000sq ft Palladium mall in October would drive up revenues

Rising rentals and new launches at HSP to buoy revenue growth

PML has registered a 19.5% CAGR in net revenues over FY04-FY09. In FY07, the company witnessed a 77% spike in growth owing to the sale of refurbished assets amounting to Rs 469mn. PML has continuously developed HSP in phases which supported its revenue growth over the past few years. The addition of Skyzone – a retail area targeting young consumers – earning monthly rentals of Rs 300–450psf during the last quarter of FY08 along with the launch of Grand Galleria and the PVR multiplex led to higher revenues during FY09. We believe the opening of the Palladium at HSP in October '09 will propel a revenue CAGR of 89% for the company over FY09-FY11.

Fig 7 - Net revenue trend



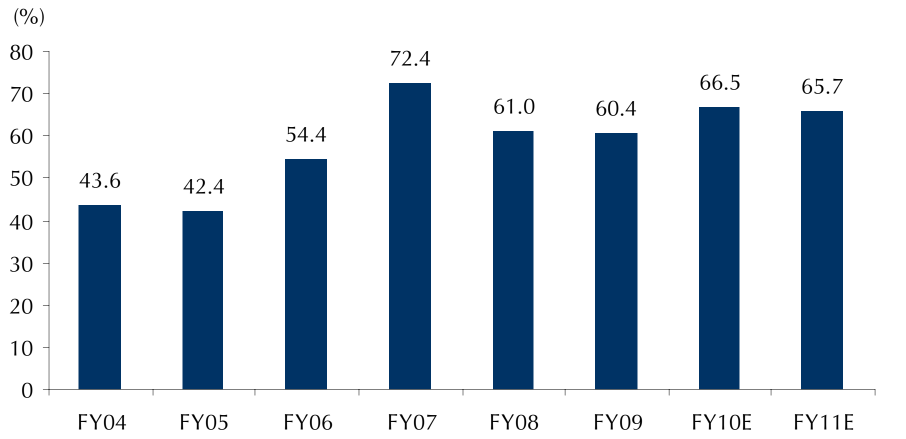
Source: Company, RHH

Sustainable EBITDA margin of 60%+ backed by rising rentals and lease space

Margins set to remain above 60%

The company's EBITDA margin has increased by 1,677bps from 43.6% in FY04 to 60.4% in FY09. Incremental lease space along with higher rentals per month has led to the improvement in margins. We believe Palladium will fetch higher rental income for PML, driving up margins further.

Fig 8 - EBITDA margin trend



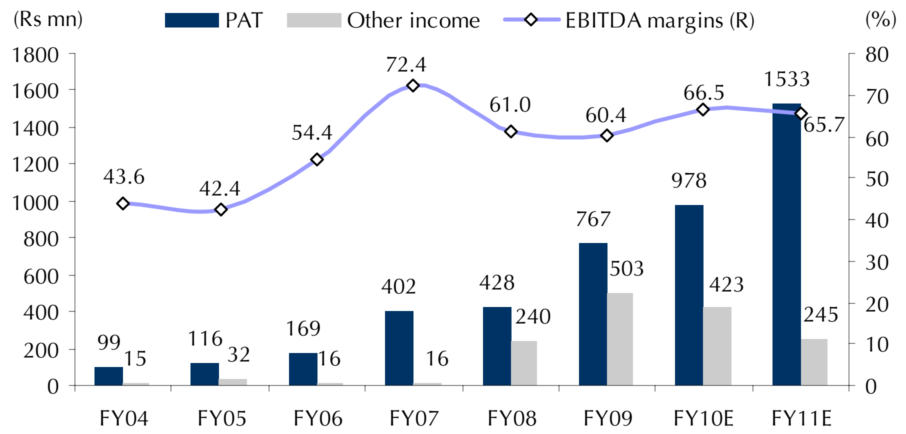
Source: Company, RHH

Launch of Pune and Bengaluru market city projects in FY11 to boost earnings

PAT CAGR of 51% over FY04-FY09, momentum to continue

Net profit has grown robustly at 51% over FY04-FY09 on account of increasing EBITDA margins coupled with higher other income. The other income rose 110% YoY to Rs 503mn in FY09 on account of sale of investments and interest earned on funds raised during FY08. We expect PAT to clock a 41% CAGR over FY09-FY11 as the Pune and Bengaluru market city projects become operational in FY11.

Fig 9 - Net profit trend



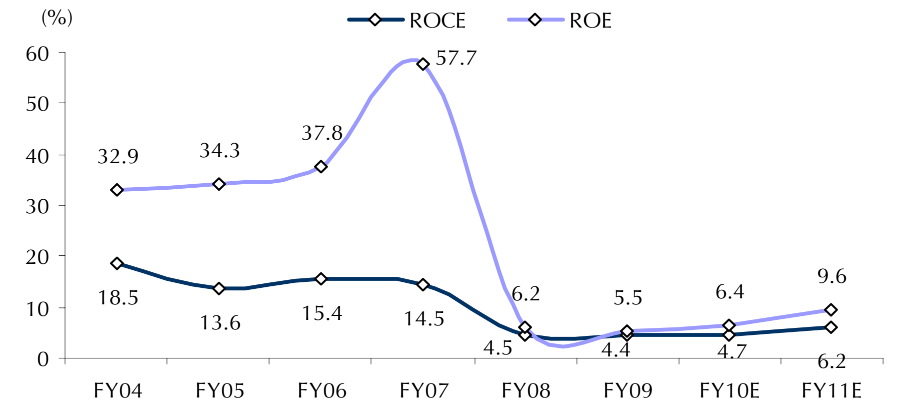
Source: Company, RHH

Residential revenue booking and low scope for dilution would improve return ratios in FY11

Equity dilution to subdue return parameters

ROCE has declined sharply from 14.5% in FY07 to 4.5% in FY09 on account of fund raising through a QIP and preferential allotment which increased average capital employed from Rs 2.9bn in FY07 to Rs 10.2bn. Also, dilution at the entity level led to a drop in ROE from 57.7% in FY07 to 5.5% in FY09. Since the company is currently in an expansion phase, capital infusion for its ongoing projects would cap ROCE and ROE at current levels for FY10. In FY11, however, we anticipate stronger return parameters as revenue booking from the Bengaluru residential project kicks in. In addition, we have assumed that there will be no further equity dilution over the next two years.

Fig 10 - Return parameters



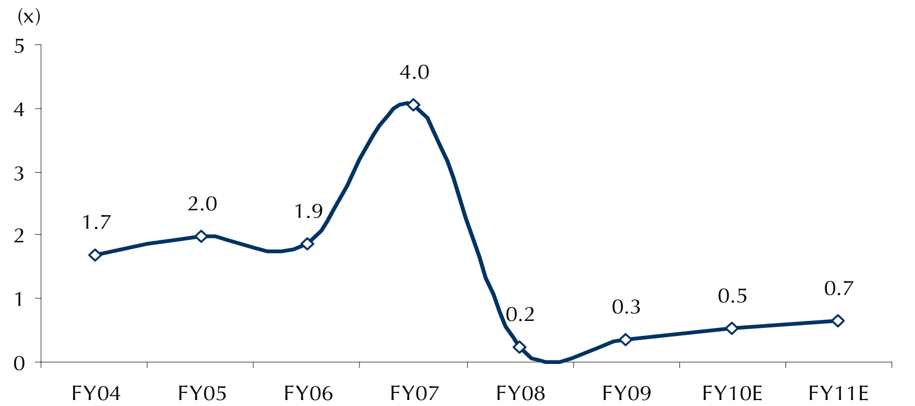
Source: Company, RHH

Leverage to rise

PML's debt/equity ratio has declined from 4x in FY07 to 0.3x in FY09 on account of fund raising through the QIP and preferential issue. We expect higher leverage in both FY10 and FY11 to fund the ongoing construction activity.

Further equity dilution unlikely, leverage to move up in FY10 and FY11

Fig 11 - Debt/Equity ratio



Source: Company, RHH

Valuation

SOTP-based valuation, target Rs 223

Target of Rs 223 includes value of Rs 203 for the core real estate projects

We have an SOTP target of Rs 223 for the stock which includes Rs 203 as the aggregate value of PML's projects, Rs 20 for investments in subsidiaries and other quoted investments, and Rs 14 for application money paid towards a stake acquisition in hospitality chain, PHCPL. Excluding net debt outstanding as on FY09, we arrive at a one-year forward fair value of Rs 223 for the stock.

Fig 12 - SOTP valuation summary

Particulars	Value	Per share value
Aggregate value of its real estate projects	25,591	177
Shangri-La hotel	1,014	7
Share application money paid	2,097	14
Investment in Treasure World Developers	1,000	7
Investment in Galaxy Entertainment	109	1
Investment in Phoenix Construction	20	0
Other investments	1,832	13
Less: Net debt	(3,542)	(24)
Total value one-year forward	**30,644**	**223**

Source: RHH

Key concerns

Fall in lease rentals, particularly in tier II cities, represents a key risk for PML

Continued uncertainty and global economic slowdown

Restrictions on the availability of credit and the short-term inability to deploy capital at acceptable levels of return have paralysed the transaction sector of real estate. Falling rentals are affecting the profitability of companies while economic and market fluctuations are likely to reduce long-term investments in the sector. As the economic meltdown unfolded in late-2008, commercial realty become the worst hit segment in the sector, and lease rental and property rates fell by 30–40% in the metros and bigger cities. PML has a high degree of exposure in tier II cities and hence could witness a decline in profitability if the market fails to pick up substantially.

Debt to rise substantially as execution picks up

Rising debt level a major cause for concern

PML generally employs a high leverage of 1.7–2x to finance its projects, especially in the retail and hospitality segments. We expect a substantial increase in debt for execution of both, market city and EWDPL projects. The management has however said that debt from SPVs will not have recourse to the company.

Keeping strategic investors happy

In order to sustain its capital-heavy business model, PML ropes in strategic investors at an early stage of project development. This investor funds the project based on an assured internal return and other operational parameters. Failure to meet these expectations may have repercussions for funding of future projects.

Tier II and III cities still to recover from the downturn

Most of EWDPL's projects are located in tier II and tier III cities, where retail and hospitality are yet to emerge from the downturn phase on account of excess supply and the continued economic slowdown. However, properties with a first mover advantage and a strategic location such as Indore Central are expected to meet with success.

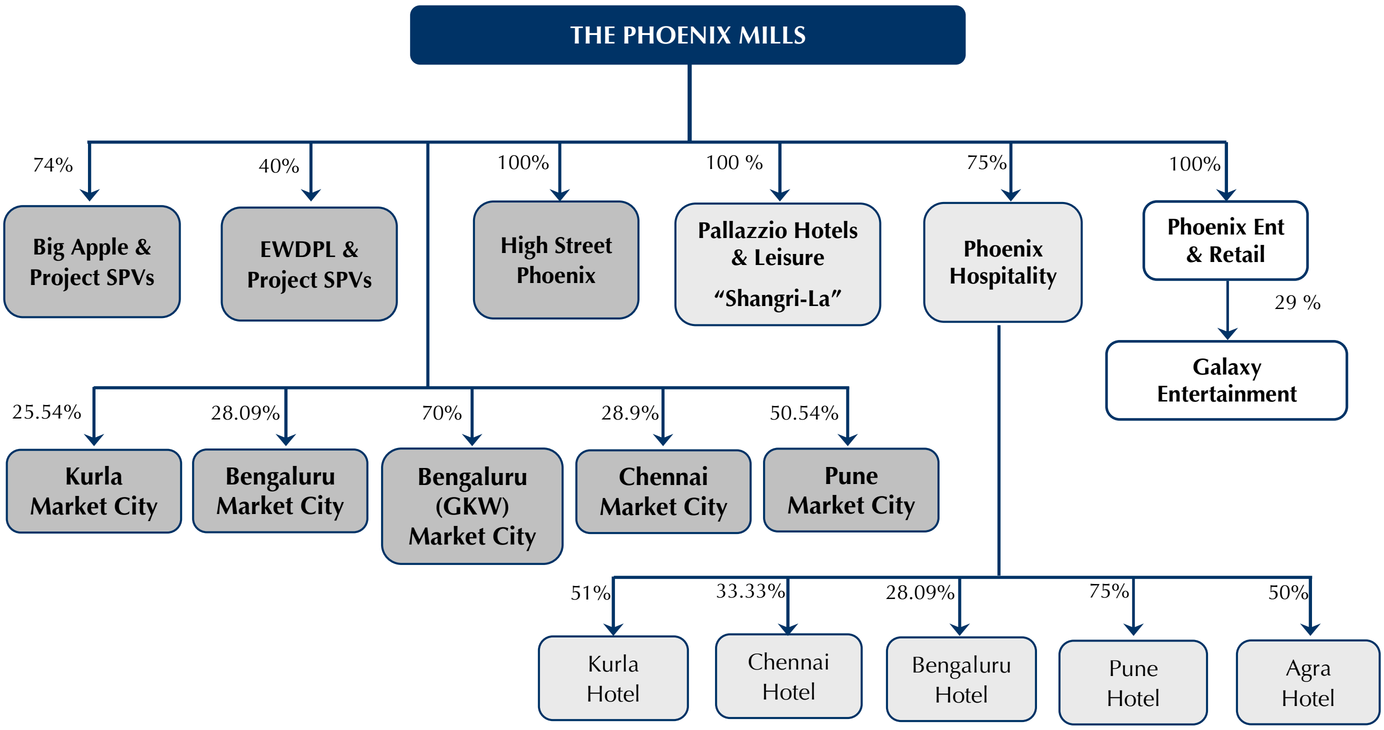
Company profile

Forayed into the real estate market in Mumbai in 1987

The Phoenix Mills (PML) began operations as a textile manufacturing company in 1905 on 17.3 acres of land in Lower Parel, Mumbai. In 1987, the company largely exited the textile sector and entered into the booming real estate market in Mumbai by commencing development of High Street Phoenix (HSP) on its textile mill property in Lower Parel. HSP was the first consumption centre developed by the Phoenix Group in India. Developed on 1.5msf of space, the complex houses retail, entertainment, commercial and residential complexes.

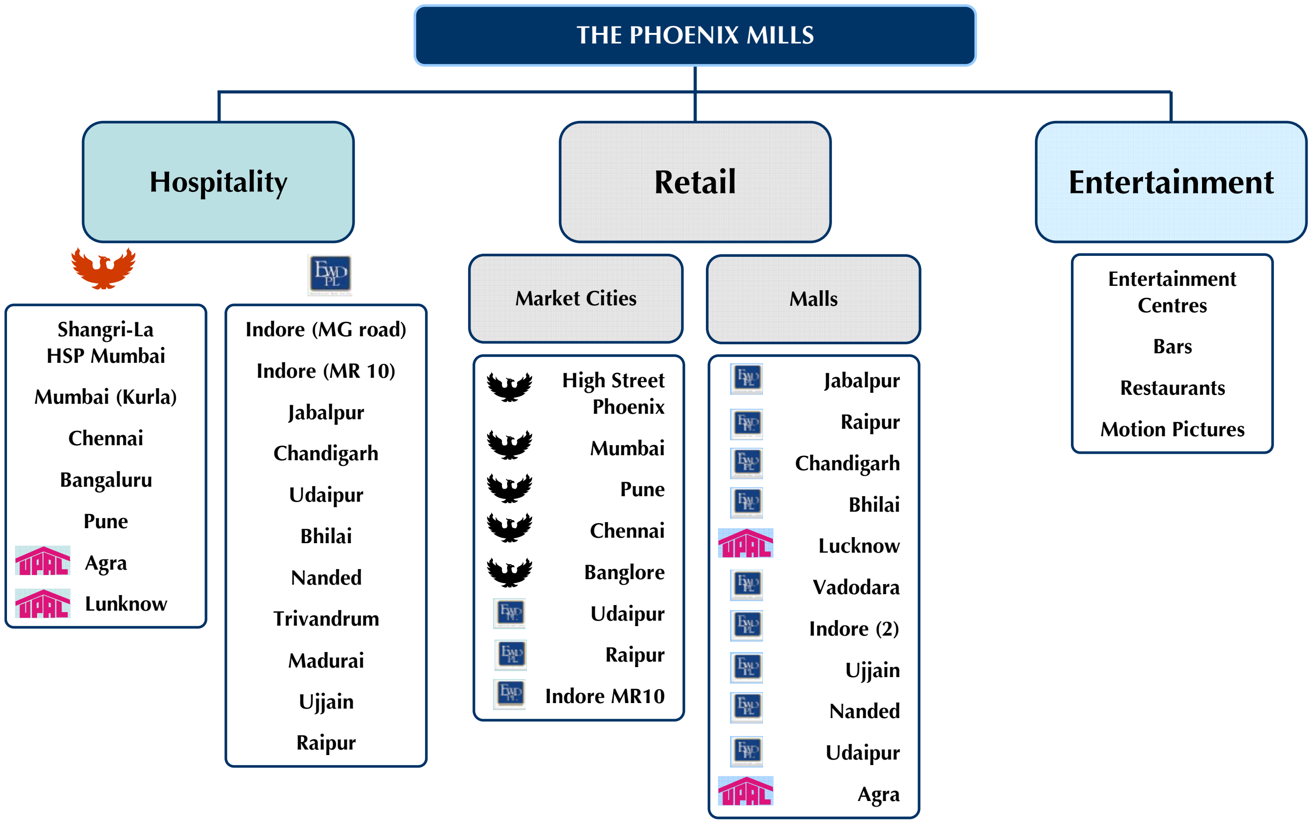
PML is currently developing over 43.5msf of space, covering the retail, hospitality and office segments, with a special focus on retail. Apart from Mumbai, the group has forayed into Bengaluru, Chennai, Pune and Kolkata. In order to intensify and expand its presence in the retail sector, PML has invested in EWDPL and Big Apple Real Estate, firms focused on developing retail and hospitality propositions across tier II and tier III cities. In addition, it has restructured its own operations by merging group companies involved in similar lines of business with itself, thereby enhancing its focus on real estate development.

Fig 13 - Phoenix Group structure



Source: Company, RHH

Fig 14 - Business verticals



Source: Company, RHH

Fig 15 - Key milestones

Year	Events
1905	Incorporated at Mumbai to manufacture cotton textile goods
1987	Came under the provisions of the Sick Industrial Companies (Sp. Provisions) Act, 1985 due to erosion in its net worth; continued to be a potentially sick unit between 1988–93 Entered into the growing real estate market
1992	First multi-storied Phoenix residential towers built on PML land
1996	Two subsidiaries formed: Exotic Finvest, and Bellona Finvest Opened doors for South Asia's largest 20-lane bowling concourse, the first of its kind in India
1999	PML declared no longer sick by the BIFR
2001	Introduced India's first hypermarket concept 'Big Bazaar' at HSP
2002	First multi-storied Phoenix residential towers built on PML land
2003	Pantaloon and Lifestyle, two large departmental stores, each covering ~50,000sq ft of retail shopping became operational at HSP
2004	HSP encompasses 400,000sq ft of retail space with the introduction of Skyzone and other retail zones
2006	Announced a new project at HSP
2008	Acquired a 25-acre plot at Rajaji Nagar in Bengaluru for ~Rs 3.2bn from GKW Ruia Real Estate Development Company merged with the company with effect from 1 November 2007 Entered into a strategic alliance with EWDL by acquiring over 40% stake in the company
2009	Acquired ~39% in Big Apple Real Estate Private Limited

Source: Company, RHH

Aggressive M&A drive

In order to sharpen its focus on real estate, PML embarked on a merger and acquisition drive over the last one-and-a-half decade.

Fig 16 - M&A activity

Date	Equity Capital	Reason	Premium (Rs/share)	Ratio
31-Mar-92	1.2	As Per Annual Report	0	0:00
31-Mar-96	2.45	Private Placement	0	0:00
12-Sep-05	12.25	Bonus Issue	0	4:01
6-Sep-07	14.24	Preferential Issue Of Shares	1,590	0:00
31-Jul-07	19.14	Preferential Issue Of Shares	1,990	0:00
10-Jun-07	27.14	Scheme of Arrangement/Amalgamation	0	0:00
8-Apr-08	28.97	Scheme of Arrangement/Amalgamation	0	0:00

Source: Company

AREPL amalgamation gave PML access to five market city projects

Ashok Ruia Enterprise Private Limited (AREPL)

AREPL, a promoter group company engaged in the business of retail mall development through SPVs, was amalgamated with PML with effect from 1 October 2007 at a 5:8 swap ratio. Subsequent to the amalgamation, PML holds equity interests in project-specific companies that will develop the following properties.

Fig 17 - Equity interests in market city projects post-AREPL merger

Market city (msf)	Location	Phoenix's holding (%)	Retail	Commercial	Residential	Parking & Services	Total
Mumbai (Kurla)	Kurla	25.50	1.4	1.2		0.8	3.4
Pune	Nagar Road	51.00	1.4	0.4		0.7	2.5
Chennai	Velachery	30.33	1.4		0.2	0.5	2.1
Bangaluru East	Whitefield	28.09	0.8		0.6	0.8	2.3
Raipur	Near rly station	13.53	0.6	0.4	2.0	0.5	3.5
Total			**5.7**	**1.9**	**2.8**	**3.2**	**13.7**

Source: Company, RHH

In addition, PML is exploring the possibility of developing market city projects in a number of other locations across India including Indore, Goa, Hyderabad, Kolkata and Ahmedabad.

40% stake in EWDPL – an Indore-based builder developing malls across 24.5msf

Entertainment World Developers (EWDPL)

In 2008, PML identified Indore-based EWDPL as a strategic partner and acquired a 40% stake in the company. EWDPL is a tier II city-centric developer engaged in the construction and operation of mixed-use retail centres and townships. PML's 40% stake includes 12% acquired for Rs 1.5bn and 28% secured from group company, Ruia Real Estate Development, upon merger in 2007. Other shareholders of EWDPL are Manish Kalani (50%) and ICICI Venture (10%). EWDPL has issued fully convertible debentures to ICICI Venture, which are due for conversion in 2010 and would lower PML's stake to 37–38%.

The Indore-based builder operates in townships, retail and residential development, and IT parks under the *Treasure* brand. It has a total developable area of 24.5msf (~17 projects in tier II cities), of which 15.1msf is under construction. The company operates two malls in Indore at present totaling 0.6msf (MG Road mall and Treasure Centra). We expect three more malls to open by end-FY10 at Nanded, Ujjain and Raipur, taking the total area under operation for EWDPL to 1.9msf.

Fig 18 - EWDPL's project portfolio

SN	Project name	Developable area (msf)	Status
Malls			
1	Treasure Centra (Indore Central-RNT)	0.3	Operational
2	Treasure Island (MG Road, Indore)	0.3	Operational
Multi-use retail development (Treasure Market City)			
3	Indore-MR10	2.3	Under execution
4	Udaipur	1.7	Under execution
5	Trivandrum	1.9	Not started
6	Raipur	3.0	Not started
Retail (Treasure Island)			
7	Nagpur	0.7	Not started
8	Chandigarh	0.5	Under execution
9	Bhilai	0.5	Under execution
10	Jabalpur	0.5	Under execution
11	Raipur	0.9	Under execution
12	Vadodara	0.3	Not started
Residential (Treasure Town)			
13	Bijalpur	8.3	Under execution
14	Udaipur	1.1	Not started
15	Kanadia	1.8	Not started
Retail (Treasure Bazaar)			
16	Nanded	0.2	Under execution
17	Ujjain	0.2	Under execution
Total		**24.5**	

Source: Company

Stake acquisition in PHCPL

Planning to acquire a 75% stake in hospitality chain, PHCPL

PML intends to acquire a 75% stake in PHCPL (Atlas Hospitality) for a consideration of Rs 3.5bn. The management has already paid Rs 960mn as share application money. But with the economic slowdown and resultant fall in realty project valuations, PML will now renegotiate the acquisition cost. PHCPL holds an equity stake in five under-construction hotel properties located in Mumbai, Chennai, Pune, Agra and Raipur. Three of these (Mumbai, Chennai, and Pune) are likely to be operational by June '11.

Fig 19 - PHCPL's hotel properties

Project	FSI Area (sq ft)	Constructed Area (sq ft)	No of Rooms
Mumbai (Kurla)	NA	300,000	200+
Chennai	248,476	273,323	150
Pune	200,000	310,000	414
Agra	100,000	155,000	150
Raipur	NA	NA	70

Source: Company

Proposed merger with Big Apple

Proposes to infuse Rs 790mn for a 44% stake in Big Apple, owners of the United Malls brand in UP

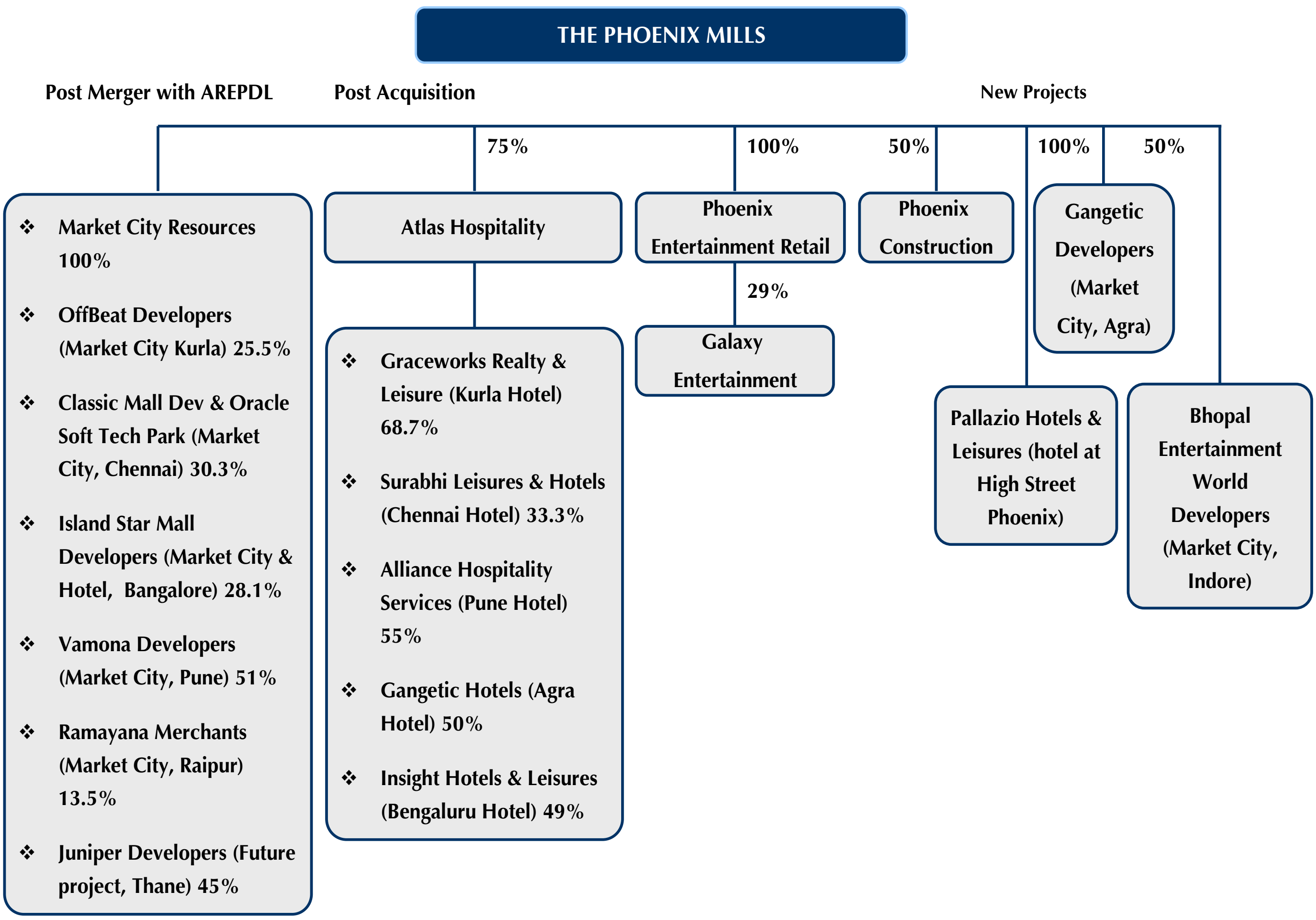
PML proposes to infuse ~Rs 790mn for a 44% stake in Big Apple Real Estate Private Limited, owners of the United Malls brand in Uttar Pradesh. Of the above, it has already acquired ~39% by investing Rs 300mn. A further 30% stake will be garnered by merging Big Apple with its wholly owned subsidiary, Market City Developers. A merger application has been filed with the Bombay High Court on 18 July 2008. Big Apple is currently developing malls at Lucknow, Agra, Bareilly and Varanasi covering an area of 2.5msf. According to the management, the company has invested Rs 900mn to date.

Fig 20 - Big Apple's projects

Project (msf)	Location	Dev. area	Retail	Hotel	Car parking	Status
Phoenix United	Lucknow	0.6	0.4	-	0.2	Dec '09 completion
Phoenix United	Agra	0.9	0.9	0.3	0.2	Not started
Phoenix United	Varanasi	0.6	-	-	-	Land to be acquired
Phoenix United	Bareilly	0.5	0.4	-	0.1	Started construction

Source: Company

Fig 21 - Business structure post mergers and acquisitions



Source: Company, RHH

Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Revenues	**821**	**996**	**1,507**	**3,564**
Growth (%)	*(17.0)*	*21.3*	*51.2*	*136.5*
EBITDA	**501**	**602**	**1,002**	**2,340**
Growth (%)	*(30.1)*	*20.2*	*66.5*	*133.5*
Depreciation & amortisation	76	93	111	238
EBIT	425	508	508	891
Growth (%)	*(34.0)*	*19.7*	*-*	*75.2*
Interest	45	55	87	112
Other income	240	503	423	245
EBT	620	957	1,227	2,235
Income taxes	192	190	249	452
Effective tax rate (%)	*31.0*	*19.8*	*20.3*	*20.2*
Extraordinary items	-	-	-	-
Min into / inc from associates	-	(1)	-	250
Reported net income	428	768	978	1,533
Adjustments	-	1	-	-
Adjusted net income	**428**	**767**	**978**	**1,533**
Growth (%)	*6.5*	*79.3*	*27.5*	*56.8*
Shares outstanding (mn)	135.7	144.8	144.8	144.8
FDEPS (Rs) (adj)	**3.0**	**5.3**	**6.8**	**10.6**
Growth (%)	*6.5*	*79.3*	*27.5*	*56.8*
DPS (Rs)	1.1	1.0	1.0	1.0

Cash flow statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Net income + Depreciation	504	861	1,089	1,771
Non-cash adjustments	(40)	(337)	19	265
Changes in working capital	(109)	71	(6)	(229)
Cash flow from operations	355	595	1,103	1,807
Capital expenditure	(5,922)	(4,437)	(3,250)	(2,450)
Change in investments	(6,968)	1,876	(500)	(1,000)
Other investing cash flow	(1,152)	403	-	-
Cash flow from investing	(14,042)	(2,159)	(3,750)	(3,450)
Issue of equity	14,000	86	-	-
Issue/repay debt	(1,818)	2,155	3,250	2,450
Dividends paid	(94)	(167)	(120)	(120)
Other financing cash flow	1,490	1,281	636	(469)
Change in cash & cash eq	(109)	1,790	1,118	218
Closing cash & cash eq	22	1,910	3,028	3,246

Economic Value Added (EVA) analysis

Y/E March	FY08	FY09	FY10E	FY11E
WACC (%)	12.9	12.5	11.3	11.3
ROIC (%)	3.4	2.5	3.3	6.6
Invested capital (Rs mn)	12,689	19,493	23,640	27,081
EVA (Rs mn)	(1,199)	(1,933)	(1,898)	(1,275)
EVA spread (%)	(9.4)	(9.9)	(8.0)	(4.7)

Balance sheet

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and cash eq	22	1,910	3,028	3,246
Accounts receivable	216	351	421	561
Inventories	3	3	3	3
Other current assets	4,052	4,077	4,277	4,477
Investments	6,340	4,525	5,025	6,025
Gross fixed assets	3,689	4,881	5,851	12,534
Net fixed assets	3,320	4,419	5,278	11,722
CWIP	5,006	9,004	11,284	7,052
Intangible assets	-	-	-	-
Deferred tax assets, net	10	11	11	11
Other assets	1	-	-	-
Total assets	**18,969**	**24,300**	**29,327**	**33,097**
Accounts payable	206	439	539	549
Other current liabilities	1,840	915	1,076	1,177
Provisions	217	228	240	245
Debt funds	3,048	5,452	8,702	11,152
Other liabilities	813	2,119	3,150	3,500
Equity capital	271	290	290	290
Reserves & surplus	12,574	14,858	15,330	16,185
Shareholder's funds	12,846	15,147	15,620	16,474
Total liabilities	**18,969**	**24,300**	**29,327**	**33,097**
BVPS (Rs)	96.5	106.6	109.8	115.7

Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
Profitability & Return ratios (%)				
EBITDA margin	61.0	60.4	66.5	65.7
EBIT margin	51.7	51.0	59.1	59.0
Net profit margin	52.1	77.0	64.9	43.0
ROE	6.2	5.5	6.4	9.6
ROCE	4.5	4.4	4.7	6.2
Working Capital & Liquidity ratios				
Receivables (days)	58	104	93	50
Inventory (days)	150	179	172	2
Payables (days)	7,270	19,308	26,670	416
Current ratio (x)	2.1	4.7	4.8	4.8
Quick ratio (x)	0.1	1.7	0.3	0.3
Turnover & Leverage ratios (x)				
Gross asset turnover	0.3	0.2	0.3	0.4
Total asset turnover	0.1	0.0	0.1	0.1
Interest coverage ratio	9.5	9.3	10.2	18.8
Adjusted debt/equity	0.2	0.3	0.5	0.7
Valuation ratios (x)				
EV/Sales	35.5	29.3	19.4	8.2
EV/EBITDA	58.2	48.5	29.1	12.5
P/E	59.9	33.4	26.2	16.7
P/BV	1.8	1.7	1.6	1.5

Quarterly trend

Particulars	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10
Revenue (Rs mn)	207	234	221	214	248
YoY growth (%)	*58*	*40*	*9*	*(86)*	*20*
QoQ growth (%)	*(86)*	*13*	*(6)*	*(3)*	*16*
EBITDA (Rs mn)	136	162	134	106	165
EBITDA margin (%)	66	69	61	50	66
Adj net income (Rs mn)	110	387	148	141	153
YoY growth (%)	*51.4*	*399.6*	*(14.1)*	*(89.5)*	*39.0*
QoQ growth (%)	(91.8)	250.6	*(61.9)*	(4.7)	9.1

DuPont analysis

(%)	FY07	FY08	FY09	FY10E	FY11E
Tax burden (Net income/PBT)	64.6	69.0	80.2	79.7	68.6
Interest burden (PBT/EBIT)	96.6	146.1	188.2	137.7	106.4
EBIT margin (EBIT/Revenues)	65.1	51.7	51.0	59.1	59.0
Asset turnover (Revenues/Avg TA)	27.5	6.9	4.6	5.6	11.4
Leverage (Avg TA/Avg equtiy)	515.7	174.5	154.6	174.3	194.5
Return on equity	**57.7**	**6.2**	**5.5**	**6.4**	**9.6**

Company profile

The Phoenix Mills (PML) is a mid cap real estate company with a focus on the retail, commercial and entertainment segments in tier I and tier II cities. PML's flagship project, High Street Phoenix, in Lower Parel, Mumbai was the first consumption centre developed by the Phoenix Group in India. Developed on 1.5msf of space, the complex houses retail, entertainment, commercial and residential complexes and is being steadily expanded in phases. The company currently has a development portfolio of over 43.5msf in Mumbai, Bengaluru, Chennai, Pune and Kolkata.

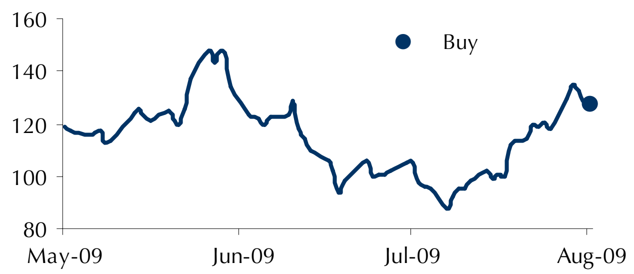
Shareholding pattern

(%)	Dec-08	Mar-09	Jun-09
Promoters	65.6	65.9	65.9
FIIs	4.1	4.1	4.6
Banks & FIs	23.6	24.3	23.5
Public	6.7	5.7	6.0

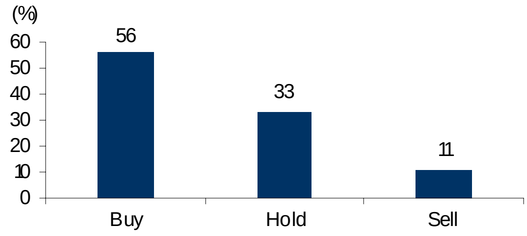
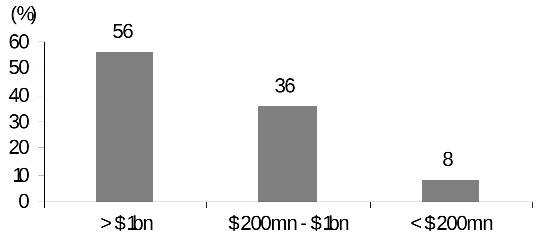
Recommendation history

Date	Event	Reco price	Tgt price	Reco
8-Sep-09	Initiating Coverage	177	223	Buy

Stock performance



Coverage Profile

By recommendation	By market cap (US$)
	

Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and –5%
Sell	Less than –5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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