

PHOENIX MILLS LTD.

BUY
CMP Rs190
TP Rs240

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Phoenix Mills (PHNX) holds 58.5% stake in its Pune market city SPV which is all set to launch over the next week. We believe this mall will further strengthen PHNX rental model and is likely to add substantial rental revenue from Q3FY12 onwards. Our expectation from Pune market city SPV for FY12E is Rs500mn for H2FY12 on rental portfolio. We have a 'BUY' recommendation on the stock with a target price of Rs240 and Pune market city contribute 9% to gross NAV.

Rental model to further strengthen:

The opening of the Pune market city mall will further strengthen the rental model of Phoenix Mills. Presently PHNX's rental revenue (FY11-1760 mn) comes from HSP and launch of Pune market city is likely to add to the extent of Rs500mn to the topline of PHNX in FY12E. Moreover we expect all its market city project to be operational in FY12 which is likely to further enhance the rental income of the company.

Leasing status approx 80%

Phoenix holds 58.5% stake in Pune market city SPV. The total area is 2.5msf of which 1.4msf for Rental, 0.4msf for commercial and 0.7msf for Parking. The company in this market city project has both lease model and sale model. In Sale model it has sold approx 70% of 0.26 msf (Rs1.2bn) and is most likely to be recognized in FY12 apart from the rental income. The company has leased approx 80% of retail @Rs 60 psf. We believe balance 20% of the area is likely to be leased post complete operation of the mall so that average rental can be improved.

Other market city likely to be operational in FY12:

Kurla and Bangalore Market city projects are likely to be operational by end of Q2FY12. Leasing status for Market City Projects has improved further and we expect additional leasing out only after malls come into operation. Chennai mall is likely to be operational in Q3FY12e.(Table -1)

VALUATIONS AND RECOMMENDATION

We maintain our 'BUY' recommendation on the stock with a target price of Rs240, which discounts FY12E gross NAV by 20%.

KEY FINANCIALS		Rs mn				
	FY09	FY10	FY11E	FY12E	FY13E	
Net Revenues	996	1,230	2,621	5,095	6,194	
YoY Gr (%)	21.3	23.5	113.1	94.4	21.6	
Op. Profits	602	775	1,613	3,106	3,461	
OPM (%)	60.4	63.0	61.5	61.0	55.9	
Adj. Net Profit	767	620	1,185	2,064	2,288	
YoY Gr (%)	79.3	(19.2)	91.2	74.2	10.8	
KEY RATIOS						
Dil.EPS (Rs)	5.3	4.3	8.2	14.3	15.8	
ROCE (%)	4.4	3.2	5.3	8.2	8.1	
RoE (%)	5.5	4.0	7.2	11.5	11.4	
PER (x)	35.9	44.4	23.2	13.3	12.0	
EV/ Net Sales (x)	35.6	28.8	13.5	7.0	5.7	
EV/EBITDA (x)	59.0	45.8	22.0	11.4	10.3	

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-10	Dec-10	Mar-11
Net Revenue	443	451	468
YoY Gr. (%)	68.0	49.3	35.7
EBITDA	318	327	321
EBITDA Marg. (%)	71.7	72.6	68.6
Adj. Net Profit	222	238	272
YoY Gr. (%)	26.5	133.3	73.0

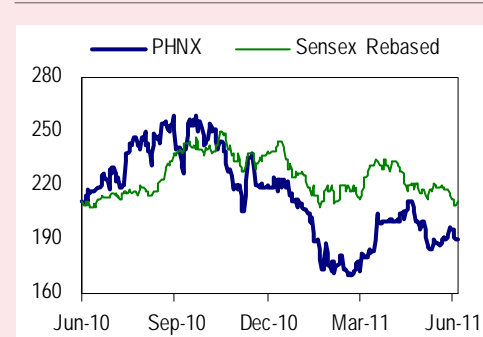
STOCK DATA

Market Cap	Rs27.5bn
Book Value per share	Rs111
Shares O/S (F.V. Rs2)	144.8mn
Free Float	28.7%
Avg Trade Value (6 months)	Rs19.6mn
52 week High/Low	Rs270/160
Bloomberg Code	PHNXIN
Reuters Code	PHOE.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(0.7)	4.5	(10.0)
Relative	1.0	7.3	(9.8)

RELATIVE PERFORMANCE



Market City Project

Project Name	Total Area (msf)	Retail (msf)	Commercial (msf)	Residential (msf)	Parking area (msf)	Estimated Projected Cost (Rs mn)	Operational date	Retail Leasing status	Expected Rate (Rs/sq ft)
Kurla	3.4	1.4	1.2	0.0	0.8	10,500	Q2FY12	65% pre-leased	90
Bangalore	2.3	0.8	0.0	0.6	0.8	5,450	Q2FY12	60% Pre Leased	60
Chennai	2.1	1.4	0.0	0.2	0.5	4,500	Q3FY12	60% Pre Leased	70
Pune	2.5	1.4	0.4	0.0	0.7	7,400	Q1FY12	80% Pre-Leased	60

Source: Company, PINC Research

PHNX One year forward NAV

Project	NPV (Rs)	Comment
High Street Phoenix	141	
Market City (Kurla, Bengaluru, Chennai, Pune)	94	Likely to be operational in FY12
Other Residential	18	Includes Bangalore GKW and Bangalore (E) proj.
Investment in Treasure World Developers	18	
Investment in Galaxy Entertainment	1	
Investment in Phoenix construction	0.1	
Other investments	27	
Shangrila hotel	21	Phase I likely to be operational in Q3FY12
HSP Phase IV	14	May get higher FSI on Hospitality
Less: Net Debt	36	
NAV	297	
Less: 20% Discount to NAV	59	
Target Price	238	

Source: Company, PINC Research

Income Statement	FY09	FY10	FY11E	FY12E	FY13E
Revenues	996	1,230	2,621	5,095	6,194
<i>Growth (%)</i>	<i>21.3</i>	<i>23.5</i>	<i>113.1</i>	<i>94.4</i>	<i>21.6</i>
EBITDA	602	775	1,613	3,106	3,461
<i>Growth (%)</i>	<i>20.2</i>	<i>28.8</i>	<i>108.2</i>	<i>92.5</i>	<i>11.4</i>
Depreciation & amortisation	93	172	278	402	513
EBIT	508	603	1,335	2,704	2,948
Interest	55	86	136	256	300
Other income	503	243	267	267	245
EBT	957	759	1,466	2,715	2,893
Income taxes	190	147	372	684	723
Extra-ordinary items	-	-	-	-	-
Min int / inc from assoc	(1)	7	215	641	748
Reported net income	768	620	1,185	2,064	2,288
Adjustments	1	-	-	-	-
Adjusted net income	767	620	1,185	2,064	2,288
<i>Growth (%)</i>	<i>79.3</i>	<i>(19.2)</i>	<i>91.2</i>	<i>74.2</i>	<i>10.8</i>
Dil. EPS (Rs)	5.3	4.3	8.2	14.3	15.8
<i>Growth (%)</i>	<i>79.3</i>	<i>(19.2)</i>	<i>91.2</i>	<i>74.2</i>	<i>10.8</i>

Cash Flow Statement	FY09	FY10	FY11E	FY12E	FY13E
Pre-tax profit	957	759	1,466	2,715	2,893
Depreciation & Amortisation	93	172	278	402	513
Total Tax Paid	(190)	(200)	(336)	(684)	(710)
Chg in working capital	71	544	(427)	1,839	(142)
Other operating activities	(418)	(97)	44	348	488
Cash flow from oper (a)	513	1,179	1,025	4,621	3,041
Capital Expenditure	(4,437)	(2,696)	(2,450)	(2,450)	(5,657)
Chg in investments	1,876	(858)	(1,000)	-	(425)
Other investing activities	534	401	245	245	265
Cash flow from inv.(b)	(2,027)	(3,152)	(3,205)	(2,205)	(5,816)
Free cash flow (a+b)	(1,514)	(1,974)	(2,180)	2,416	(2,775)
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	2,241	1,146	2,450	1,200	1,200
Change in MI	-	-	-	-	-
Dividend (incl. Tax)	(167)	(167)	(203)	(169)	(169)
Other financing activities	1,329	(245)	1,111	(261)	(516)
Cash flow from fin (c)	3,402	734	3,358	769	515
Net chg in cash (a+b+c)	1,888	(1,240)	1,178	3,185	(2,260)

Balance Sheet	FY09	FY10	FY11E	FY12E	FY13E
<i>Equity Share Capital</i>	290	290	290	290	290
<i>Reserves & surplus</i>	14,858	15,759	16,773	18,667	20,785
Shareholders' funds	15,148	16,048	17,063	18,957	21,074
Min. Interest & Other	2,119	2,190	3,500	3,800	3,900
Total Debt	5,452	6,608	9,058	10,258	11,458
Capital Employed	22,718	24,847	29,621	33,015	36,432
Net fixed assets	13,423	16,458	18,630	20,678	25,822
Cash & Cash Eq.	1,910	671	1,849	5,034	2,774
Net Other current assets	2,849	2,093	2,518	678	821
Investments	4,525	5,601	6,601	6,601	7,005
Other Assets	-	-	-	-	-
Net Deferred tax Assets	11	24	24	24	11
Total Assets	22,718	24,846	29,621	33,015	36,432

Key Ratios	FY09	FY10	FY11E	FY12E	FY13E
OPM (%)	60	63	62	61	56
Net Margin (%)	77	50	45	41	37
Dividend Yield (%)	0.5	0.6	0.5	0.5	0.5
Gross asset turnover (x)	0.2	0.2	0.2	0.3	0.3
Total asset turnover (x)	0.0	0.0	0.1	0.2	0.2
Adjusted debt/equity (x)	0.3	0.4	0.5	0.5	0.5
Interest coverage ratio (x)	9.3	7.0	9.8	10.5	9.8
RoCE (%)	4.4	3.2	5.3	8.2	8.1
RoE (%)	5.5	4.0	7.2	11.5	11.4
EV/Net Sales (x)	35.6	28.8	13.5	7.0	5.7
EV/EBITDA (x)	59.0	45.8	22.0	11.4	10.3
P/E (x)	35.9	44.4	23.2	13.3	12.0
P/BV (x)	1.8	1.7	1.6	1.5	1.3

Economic Value Added (EVA) Analysis					
	FY09	FY10	FY11E	FY12E	FY13E
WACC (%)	11.8	(56.2)	12.2	12.2	8.7
ROIC (%)	2.5	2.3	4.2	7.9	7.5
Invested capital (Rs mn)	19,493.2	22,031.4	25,630.1	25,838.8	32,861.9
EVA (Rs mn)	(1,799.4)	12,894.3	(2,053.0)	(1,110.2)	(377.2)
EVA spread (%)	(9.2)	58.5	(8.0)	(4.3)	(1.1)

Du Pont Analysis					
(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net inc./PBT)	80.2	81.6	80.8	76.0	79.1
Interest burden (PBT/EBIT)	188.2	126.0	109.8	100.4	98.1
EBIT margin (EBIT/Rev.)	51.0	49.0	50.9	53.1	47.6
Asset Turnover (Rev./Avg TA)	4.6	4.8	9.0	15.3	16.8
Leverage (Avg TA/Avg equity)	154.6	163.9	176.3	185.0	184.0
Return on equity	5.5	4.0	7.2	11.5	11.4

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