

## Phoenix Mills

### Pune market city finally opens its doors

We visited Phoenix Mills' (PML) Pune market city project (commenced operations yesterday), first of the four market cities of Phoenix, which are likely to be opened over the next 2-3Qs across Mumbai/ Bangalore/ Chennai. Our initial view from the site visit is positive. Retailer sentiment seems to be fairly healthy despite oversupply concerns in the area (3 malls recently opened in the vicinity). Phoenix has done better than competition, achieving average rent of Rs 60psf about 20-25% higher than competition. Overall financial numbers seem to be on track to achieve an annuity rent of Rs3B by FY13E (45% CAGR in FY11-13E) given healthy pre leasing across upcoming projects. While delay in opening of market cities has been a concern, launch/response to the Pune project and later in the year Kurla / Shangri-la hotel should help improve confidence, in our view.

- Pune market city now open:** Phoenix Mills launched its first market city— 1.2msf of retail space (PHNX stake – 0.7msf) in Pune last evening. Overall the project currently has ~80% lease commitments with anchor tenants being Marks & Spencer, Westside, Star Bazaar, Zara, Pantaloon and PVR. The mall has partially commenced operations as a number of stores are still in the fit out stage and is likely to be fully operational over the next 2-3 months. It is expected to generate rentals of ~Rs500M (PHNX stake) once fully operational. PAT contribution, however, is likely to be muted in the near term given corresponding finance/depreciation expense.
- Retail supply in the vicinity remains high** with 3 malls (>2msf) being opened in YTD CY11. These include Raheja's Inorbit mall (0.65msf), PML's market city (1.2msf) and Pulse (~0.5msf). While anchor tenants vary across malls, interestingly a number of vanilla stores have taken space in all three malls. There are additional 3 malls in the neighboring suburb (15 mins away at Mudhwa Road), which are nearing completion.
- Maintain OW with revised Mar-12 PT of Rs260** (vs. 280 earlier) as we factor in a push-back in residential launches and startup losses in mall /hotel openings. At CMP, PML's flagship HSP asset accounts for 70% of market cap thereby providing high valuation comfort.

#### Phoenix Mills (Reuters: PHOE.BO, Bloomberg: PHNX IN)

Rs in mn, year-end Mar	FY10A	FY11A	FY12E	FY13E
Revenue (Rs mn)	1,230	1,992	2,916	4,736
Net Profit (Rs mn)	620	968	1,100	1,665
EPS (Rs)	4.3	6.8	7.7	11.6
Net debt to Equity	22.1%	33.1%	29.4%	20.3%
EPS growth (%)	-19.3%	56.2%	13.6%	51.4%
ROE	4.0%	5.9%	6.3%	8.8%
P/E (x)	44.3	28.4	25.0	16.5
P/BV (x)	1.7	1.6	1.5	1.4

Source: Company data, Bloomberg, J.P. Morgan estimates.

## Overweight

PHOE.BO, PHNX IN

Price: Rs192.00

▼ **Price Target: Rs260.00**  
Previous: Rs280.00

### India

#### India Property

**Gunjan Prithyani** AC

(91-22) 6157-3593

gunjan.x.prithyani@jpmorgan.com

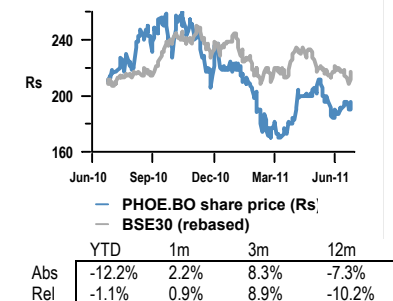
**Saurabh Kumar**

(91-22) 6157-3590

saurabh.s.kumar@jpmorgan.com

J.P. Morgan India Private Limited

#### Price Performance



#### Company Data

Shares O/S (mn)	145
Market cap (\$ mn)	617
Price (Rs)	192.00
Date Of Price	29-Jun-11
3mth Avg daily volume	0.07
3M - Average daily Value (Rs mn)	14
Average 3m Daily Turnover (\$ mn)	0.32
BSE30	18,492
Exchange Rate	45.04

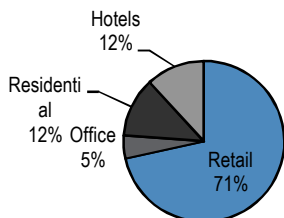
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## Company Description

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 the real estate market in Mumbai by developing High Street Phoenix (HSP) on its textile mill property in Lower Parel. With three phases already operational, the property currently offers 1msf of retail space. PML is replicating its High Street model across key metros (Bangalore, Chennai, Pune and Mumbai) via its market city projects. In addition to this, the company has made its retail foray in tier II/III cities via investments in EWDPL and Big Apple.

## NAV break up chart



Source: J.P.Morgan Estimates

## EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY12E	7.7	9.6
FY13E	11.6	11.5

Source: JP Morgan, Bloomberg

## Valuation and EPS sensitivity metrics

	NAV impact (%)	EPS impact (%)
Price/rent growth in FY10		
Impact of each 5% point change	3%	2%
Cap rate assumption		
Impact of each 1% point change	3%	0%

Source: J.P. Morgan estimates

## Price target and valuation analysis

Maintain OW with Mar-12 price target of Rs260 per share. Our PT is based on 20% discount to our SOTP. We use a 13% WACC and 11% cap rate to value company's retail portfolio.

Key risk to our view pertains to PML's minority stakes in SPV's developing market city projects. This could raise concerns on exits required by private investor (Rs10B invested) once assets become operational (though still some time away).

Key share price catalysts include

1. Progress/Response on opening of the market cities is key to watch out for.
2. Any clarity on permissible FSI in Phase IV at HSP thereby increasing the developable area.
3. Improving retailer sales trends bodes well for Phoenix's rental income given the revenue sharing model being undertaken for recent lease agreements.
4. Potential listing of EWDPL could unlock value

Table 1: Phoenix—Market City development update

	PHNX stake (%)	Total area (msf)	Retail	Lease rate	Status
Phoenix Market City, Pune	58.5%	1.9	1.2	60	- Tenant fit out work in full swing. ~80% leasing in place - Opened in June. Opened with 40% occupancy - Phase I commercial office (0.3msf) is around 75% sold out at average price of Rs6,500psf
Phoenix Market City, Bangalore (E)	32.7%	1.5	0.85	65	- Handover to the tenants has already commenced - >75% leased. Expected to be operational by Q2FY12
Phoenix Market City, Kurla (E)	24.3%	2.5	1.3	90	- Handover commenced for fit outs. Expected to be operational by Q3FY12. ~70% leased - Phase I commercial (0.25msf) has been 80% sold out. Average price of ~Rs8,500- 9,000psf
Phoenix Market City, Chennai	31.0%	1.5	1.0	75	- Handover not commenced as yet. ~70% leased - Expected to be operational by Q4FY12.

Source: Company reports, J.P. Morgan estimates.

Table 2: PML—Sum-of-the-parts valuation

	Stake	Attributable Area (msf)	Avg rent (for retail)	Avg SP for residential/office	Rs MM	Per share
<b>High Steet Phoenix</b>						
Phase-I-III	100%	0.9	165		16,200	113
Phase-IV	100%	0.3		12,000	3,000	21
Shangri-La	53%	-		ARR 10000	5,006	35
Debt at Shangri La					(1,855)	(13)
<b>Value</b>					<b>3,151</b>	<b>22</b>
<b>Market City Portfolio</b>		<b>4.1</b>			<b>12,378</b>	<b>86</b>
Pune	59%	1.1	65	6,500	5,923	41
Bangalore W	70%	1.4	NA	5,500	3,252	23
Kurla	24%	0.6	90	8,500	4,029	28
Bangalore E	33%	0.5	65	3,200	1,967	14
Chennai	34%	0.5	75	6,000	2,751	19
Total Debt at SPVs					(5,544)	(39)
EWDPL	40.3%	5.4	Rs35-40psf pm	2700	3,383	23
Big Apple	74%	0.43	Rs45 psf pm		1,764	12
Hospitality (at investment)	>1000 rooms across 4 hotels				1,100	8
Add: Net cash (Parent Co.)					400	3
<b>DCF Value</b>					<b>37,687</b>	<b>287</b>
<b>Forward NAV</b>						<b>325</b>
<b>PT (20% disocunt to FNAV)</b>						<b>260</b>

Source: J.P. Morgan estimates.

## Phoenix Mills: Summary of Financials

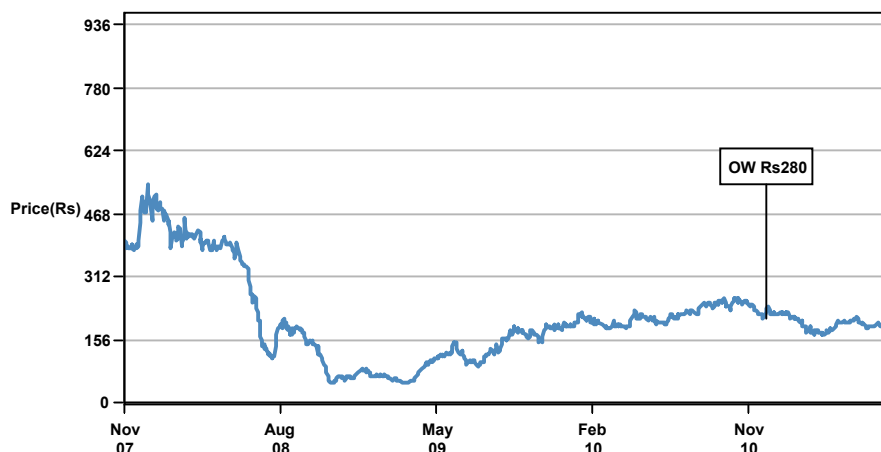
Profit and Loss Statement				Cash flow statement					
Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E
Revenues	1,230	1,992	2,916	4,736	EBIT	603	1,060	1,427	2,161
% change Y/Y	23.5%	61.9%	46.4%	62.4%	Depr. & amortization	172	293	407	553
EBIT	603	1,060	1,427	2,161	Change in working capital	756	73	92	349
% change Y/Y	18.6%	75.9%	34.6%	51.5%	Others	-	-	-	-
EBIT margin (%)	49.0%	53.2%	48.9%	45.6%	Cash flow from operations	1,539	991	1,256	2,600
Net Interest	157	229	-222	-549	Capex	-3,436	-3,445	-1,287	-1,247
Earnings before tax	765	1,289	1,400	2,099	Disposal/(purchase)	0	0	0	0
% change Y/Y	-20.0%	68.4%	8.6%	50.0%	Net Interest	0	0	0	0
Tax	-147	-322	-301	-435	Free cash flow	-1,897	-2,454	-31	1,353
as % of EBT	101.3%	105.0%	131.0%	129.3%	Equity raised/(repaid)	-	-	-	-
Net income (reported)	620	968	1,100	1,665	Debt raised/(repaid)	1,156	1,290	500	0
% change Y/Y	-19.3%	56.2%	13.6%	51.4%	Other	340	26	1	1
Core net profit	620	968	1,100	1,665	Dividends paid	0	0	0	0
% change Y/Y	-19.3%	56.2%	13.6%	51.4%	Beginning cash	3,453	3,059	2,263	3,073
Shares outstanding	143	143	143	143	Ending cash	3,059	2,263	3,073	4,393
EPS (reported)	4.33	6.77	7.68	11.63					
% change Y/Y	(19.3%)	56.2%	13.6%	51.4%					
Balance sheet				Ratio Analysis					
Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E
Cash and cash equivalents	3,059	2,263	3,073	4,393	EBIT Margin	49.0%	53.2%	48.9%	45.6%
Accounts receivable	431	431	431	431	Operating margin	49.0%	53.2%	48.9%	45.6%
Inventories	3	3	3	3	Net margin	50.4%	48.6%	37.7%	35.2%
Others	3,628	3,634	3,583	3,486	Sales growth	23.5%	61.9%	46.4%	62.4%
Current assets	7,121	6,331	7,091	8,313	Net profit growth	-19.3%	56.2%	13.6%	51.4%
Investments	3,212	4,012	4,012	4,012	EPS growth	(19.3%)	56.2%	13.6%	51.4%
Net fixed assets	16,458	18,810	19,691	20,385	Interest coverage (x)	-	-	8.26	4.94
Total Assets	26,791	29,154	30,794	32,710	Net debt to total capital	16.4%	23.7%	20.7%	14.6%
Liabilities					Net debt to equity	22.1%	33.1%	29.4%	20.3%
Current Liabilities	1,724	1,804	1,845	2,096	Sales/assets	0.05	0.07	0.10	0.15
Others	244	244	244	244	Assets/equity	1.67	1.71	1.70	1.65
Total current liabilities	1,969	2,049	2,089	2,341	ROE	4.0%	5.9%	6.3%	8.8%
Total debt	6,608	7,898	8,398	8,398	ROCE	2.8%	4.5%	5.6%	7.9%
Other liabilities	0	0	0	0					
Total Liabilities	8,577	9,947	10,487	10,738					
Shareholders' equity	16,048	17,017	18,116	19,781					
BVPS	112.15	118.91	126.60	138.23					

Source: Company reports and J.P. Morgan estimates.

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Phoenix Mills (PHOE.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
30-Nov-10	OW	206.10	280.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Nov 30, 2010.

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