



Phoenix Mills

BSE SENSEX	S&P CNX	CMP: INR200	TP: INR255	Buy						
16,883	5,069									
Bloomberg	PHNX IN									
Equity Shares (m)	144.8									
52-Week Range (INR)	242/160									
1,6,12 Rel. Perf. (%)	0/8/4									
M.Cap. (INR b)	28.7									
M.Cap. (USD b)	0.6									
YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EY/	EY/
END	(INR M)	(INR M)	(INR)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/10A	1,230	617	4.3	-19.6	-	-	3.8	3.6	-	-
3/11A	2,102	818	5.6	32.6	35.4	1.7	4.9	5.2	17.9	26.7
3/12E	3,850	1,223	8.4	49.6	23.7	1.6	6.9	7.1	10.5	17.0
3/13E	5,318	1,553	10.7	27.0	18.6	1.5	8.2	8.9	7.3	11.4

Phoenix Mills 2QFY12: In-line; Additional loan of INR2.1b at HSP, net debt up to INR11.4b; Bangalore mall commenced, Kurla by November end; Maintain Buy

- Phoenix Mills' 2QFY12 standalone numbers are broadly in line with our estimate. EBITDA grew 5%YoY to INR333m up (v/s est INR342m), while EBITDA margin stood at 70.3% (v/s est 71%).
- Revenues, which are driven by HSP, grew 7% YoY to INR474m (v/s est INR482m). PAT was up 8% YoY at INR239m (v/s est INR257m), on account of higher interest expense on additional LRD (Lease Rental Discounting) loan of ~INR2.1b (net debt stood at INR2.2b) taken at standalone level.
- While Pune and Bangalore Market City malls commenced operation during the Jun-11 and Oct-11, mall at Kurla is getting operational by Nov-11, and Chennai mall will start operation by 1QFY13. During 2QFY12, the company managed to re-finance its debt (INR5.8b as against original loan amount of INR5.4b) at Kurla Market City through LRD, as per guidance. It has already re-financed debt at Pune Market City during last quarter.
- Consolidated net debt increased to INR11.4b as against INR7.9b in 1QFY12. The management expects debt to peak at ~INR15b by 4QFY12, due to further drawdown of construction loan, followed by gradual reduction.
- The stock trades at PER of 18.6x FY13 EPS of INR10.7, 1.5x FY13BV and 29% discount to our NAV of INR282. Maintain **Buy**.

Quarterly Performance (Standalone)

Y/E March	FY11				FY12E				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY11	FY12E
Sales	404	443	451	468	471	474	499	511	2,102	3,850
Change (%)	63.1	68.0	49.3	35.7	16.4	6.9	10.8	9.3	70.8	83.2
Total Expenditure	111	126	123	147	140	141	140	142	696	1,465
EBITDA	294	317	327	321	331	333	359	369	1,406	2,386
Change (%)	55.5	74.5	84.7	62.1	12.6	5.1	9.8	15.1	81.4	69.7
As % of Sales	72.6	71.6	72.6	68.6	70.3	70.3	72.0	72.2	66.9	62.0
Depreciation	69	70	70	70	67	69	70	75	314	500
Interest	35	29	19	3	10	31	63	66	228	489
Other Income	44	66	71	141	110	89	89	83	287	254
PBT	234	285	310	389	363	323	316	312	1,151	1,651
Tax	52	64	72	118	91	84	79	75	321	461
Effective Tax Rate (%)	22.0	22.3	22.0	30.3	25.0	25.0	25.0	24.0	27.9	27.9
Reported PAT	183	221	238	272	272	239	237	237	830	1,191
Change (%)	19.1	26.1	133.3	72.9	49.1	8.0	(0.3)	(12.7)	35.5	43.5
Adj. PAT	183	221	238	272	272	239	237	237	818	1,223
Change (%)	19.1	26.1	133.3	72.9	49.1	8.0	(0.3)	(12.7)	32.6	49.6

E: MOSL Estimates

Phoenix Mills 2QFY12: In-line; Additional loan of INR2.1b at HSP, net debt up to INR11.4b; Bangalore mall commenced, Kurla by November end; Maintain Buy

Result highlights

- **Standalone EBITDA margin stable:** HSP reported EBITDA margin of 70.3%, stable QoQ. The margin for FY12 is likely to remain between 70-72%, with possible improvement in 2HFY12 driven by re-commencement of Landmark and start of GG connect area.
- **Loans and advances up by INR2.7b during 1HFY12:** PHNX's standalone loans and advances increased by ~INR2.7b during 1HFY12, largely on account of loans given to subsidiary companies for construction (primarily Market City projects).
- **Consolidated gross debt at INR13.6b:** Consolidated gross debt increased on account of a) drawdown of debt at under construction Market City projects and Shangri-La hotel, and b) addition of ~INR2.1b LRD loan at standalone level. Consolidated net debt increased to INR11.4b as against INR7.9b in 1QFY12. The management expects the debt to peak at ~INR15b by 4QFY12, due to further drawdown of construction loan, followed by gradual reduction.

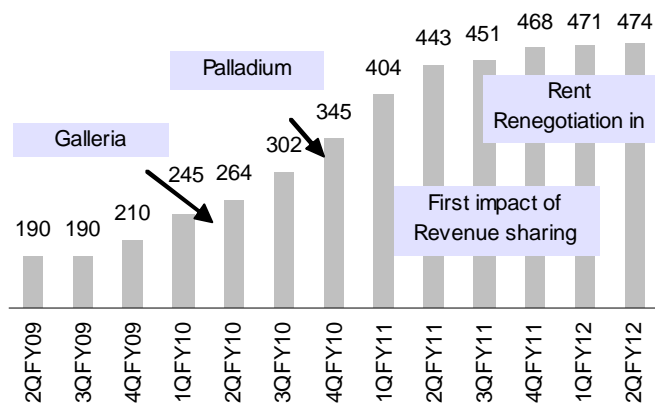
Operational highlights

High Street Phoenix: Improvement in footfall to 1.6m/month; Rental renegotiation is yet to conclude for remaining 0.1msf

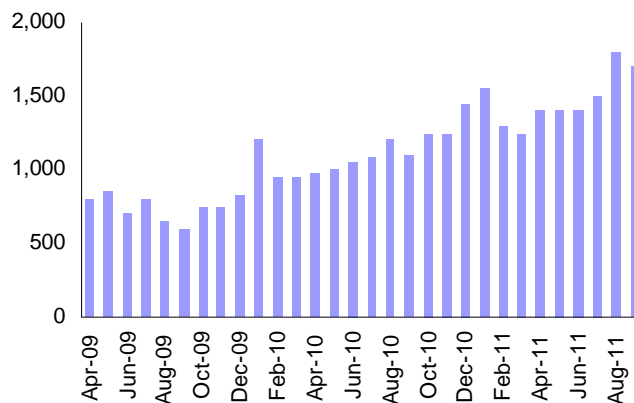
- **Rental expected to improve marginally over 2HFY12:** During 2QFY12, HSP's income from rental and service charge stood at INR474m v/s INR471m in 1QFY12. Despite steady growth in contribution from revenue sharing (~INR13m/month in 2Q), and rental re-pricing done in 0.1msf, the rental growth at HSP remain subdued, on account of lower area under operation. The management expects with re-commencement of Landmark (0.04msf, currently under renovation) and start of GG connect (~0.02msf, spun-off from Big Bazaar area) in September, HSP is likely to see marginal rise in rental run-rate over 2HFY12.
- **Guided for ~INR1.9b income from HSP:** Current average rental at HSP stood at INR170/sf (up from INR160/sf last year), comprising a) Palladium of INR185/sf and b) non-Palladium of INR140/sf. Management expects to achieve INR1.9-1.95b rental income from HSP in FY12.
- **Rental renegotiation clarity to emerge by Dec-11:** While the company has already concluded re-negotiation of ~0.1msf (Lifestyle and Big Bazaar), clarity on remaining 0.1msf (including Pantaloons) will emerge by Dec-11. Management hopes to achieve retrospective impact on this negotiation from due date.
- **Expect 9-10% rental CAGR at HSP:** We estimate HSP will deliver rental income of INR1.9b in FY12 and INR2.1b/2.2b in FY13/14 respectively. The growth in rental income will be driven largely by a) re-pricing of old rentals, b) continuous restructuring of brand-mix and c) rising contribution from revenue sharing. Going forward, we see further upside from scheduled renegotiation of ~0.5msf over FY13-15, which will keep on providing a steady uptrend in rental income.

- **Additional debt of INR3b:** During 2QFY12, PHNX has got sanction ~INR3b of additional loan and drew down ~INR2.1b under LRD route (cost of debt below 12%), largely to (a) address construction needs in Market City ventures (to be given as loans and advances), (b) repay an OD facility, and (c) create liquidity for possible future acquisition/stake increase in SPVs.

QoQ Rental growth at HSP (INR/sf/month)



Steady growth in monthly footfalls at HSP ('000)



Source: Company/MOSL

Market City projects: Bangalore mall commenced operation in 3Q, Kurla to follow; Converted Kurla debt to LRD

- PHNX's four Market City malls are in an advanced stage of development with (a) the Pune and Bangalore malls already commenced operation in 1Q/3QFY12 respectively, and (b) the Kurla and Chennai malls due to start in Nov-11 and 1QFY13 respectively.
- We estimate Market City projects will contribute ~INR0.4b in FY12 and INR1.1b-1.3b over FY13-14, after they stabilize.

Pune Market City

- **Retail:** Pune mall (1.2msf, 58.5% stake) commenced operation in Jun-11, with 33 retailers and scaled-up to 200 retailers at present. Average monthly footfall crossed 0.4m (v/s. 0.09m in Jun-11) in Oct-11. Currently contributing ~INR50m/months (consumption of INR300m/month). We estimate rental income of INR0.26m/0.43m in FY12/13.
- **Commercial:** Sold ~75% of 0.26msf (total sales value of INR1.2b) and it collected ~INR1.1b. Contribution to consolidated revenue of INR170m in 4QFY11 and remaining revenue is likely to be recognized in FY12 with the company expecting to sell remaining 25% and deliver the project by FY12.

Kurla Market City

- **Retail:** The fit out work is progressing with expected to get launched by Nov-11 with 70 stores. We estimate FY12 rental contribution at ~INR70m.
- **Commercial:** Sold ~60% of 0.25msf (total sales value of INR1.4b) and it collected ~INR900m. Average sales realization stood at INR9,200/sf.

- **Converted Kurla debt to LRD:** In line with Pune market City, PHNX has converted its construction loan at Kurla to Lease rental discounting (LRD) loan of INR5.75b.

Bangalore Market City

- **Retail:** Commenced operation in Oct-11 with 112 stores and achieved footfall of ~15000/day in first month of operation. We estimate FY12 rental contribution at ~INR90m.
- **Residential:** Both the projects at Bangalore West (GKW, ~2msf) and Bangalore East (0.6msf) are likely to be launched after next 6months. Currently master planning and approval process are in progress.

Chennai Market City

- **Retail:** Expected to commence by 1QFY13. We estimate FY13 rental contribution at ~INR220m.
- **Residential:** Launched 0.25msf, sold 0.11msf at average realization of INR6,500/sf and collected INR130m.

Status of key Market city projects

Particulars	Kurla	Pune	Bangalore East	Chennai
Total area (msf)	2.5	1.8	1.9	1.5
Retail Area (msf)	1.3	1.2	0.9	1.0
Commercial/Hotel (msf)	1.2	0.6	0.4	
Residential (msf)			0.6	0.5
Pre Lease done (%)	70-75	80-85	70-75	60
Average Rentals (INR/sf/month)	90-95	60-65	60-65	75-80
Operational date	Nov-11	Commenced	Commenced	1QFY13

Source: Company/MOSL

Valuation and view

- PML is a unique play on the booming domestic consumption story. We expect the company is set to emerge as a pure play on the domestic consumption story with a strong ramp-up of operations over the next 12-18 months.
- With stabilization of its Market City projects over the next 3-4 quarters, we see PHNX's asset-heavy model becoming a proxy to the booming domestic consumption story, leading to sharp growth in rental income from INR1.8b in FY11 to INR6.8b (PHNX share of INR 3.9b or 52%) in FY14, largely attributed by a) rental uptick in HSP, and b) commencement of Market City malls. Execution risk and leasing risk at Market City projects are meaningfully mitigated with 80-100% of construction completed (Pune and Bangalore malls operational) and pre-leasing at 65-85%.
- Key triggers for the stock would be a) successful monetization of non-retail and phase II of Market City projects followed by debt reduction, b) stake increase in operational Market city SPVs, c) value unlocking from Phase IV at HSP, where an increase in FSI could render further upside.
- The stock trades at PER of 18.6x FY13 EPS of INR10.7, 1.5x FY13BV and 29% discount to our NAV of INR282. Maintain **Buy**.

Phoenix Mills: an investment profile

Company description

Phoenix Mills is a pioneer in the development of large-scale, mixed-format retail development in India. It is a unique, low-risk play on the booming domestic consumption story with no retail-specific risks. Through its subsidiaries and associate companies it is undertaking 40 retail/ hospitality projects, totaling ~50msf, across India. It owns one of the most successful malls in India, High Street Phoenix (HSP), in Parel, Mumbai. We estimate, with the commencement of market city projects and Shangri-la hotel, rental income from retail to increase from INR1.8b in FY11 to INR3.9b in FY14.

Key investment arguments

- According to the Global Retail Development Index (GRDI), organized retail in India is set to increase from ~5% in 2007 to ~14% by 2013. Industry experts estimate the number of operational malls will cross 412, with 205msf by 2010, and 715 malls will be added by 2015, due to retail development in tier-II and tier-III Indian cities. We believe PML is well poised to benefit from this strong growth.
- PHNX's growth story is ready for take-off, with several assets slated to yield rent over the next 12-18 months, taking its total operational assets from 2.5msf in FY11 to 5.8msf/8.9msf/10.7msf in FY12/13/14 respectively.

Recent developments

- In line with Pune market City, PHNX has converted its construction loan at Kurla Market City to Lease rental discounting (LRD) loan of INR5.75b.
- Bangalore mall commenced operation in 3Q, while Kurla mall is to be operational by Nov-11 end.

Valuation and view

- The stock trades at PER of 18.6x FY13 EPS of INR10.7, 1.5x FY13BV and 29% discount to our NAV of INR282. Maintain **Buy**.

Sector view

- The real estate sector seems to be on the recovery path following the balance sheet recapitalization by key real estate companies, shifting focus on execution and a pick-up in sales momentum. While the broad based recovery in the residential vertical has been a key growth driver in the past one year, the revival in the commercial and retail segments will strengthen the sector outlook.

Comparative valuations

		Phoenix	Anant Raj	Mah. Life
P/E (x)	FY12E	23.7	6.2	6.2
	FY13E	18.6	4.2	4.8
P/BV (x)	FY12E	1.6	0.4	0.9
	FY13E	1.5	0.3	0.8
EV/Sales (x)	FY12E	10.5	2.9	1.5
	FY13E	7.2	1.8	1.2
EV/EBITDA (x)	FY12E	17.0	5.8	4.8
	FY13E	11.4	3.5	3.6

Shareholding pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	65.9	65.9	65.9
Domestic Inst	5.4	5.4	5.6
Foreign	22.7	22.5	21.8
Others	6.0	6.2	6.7

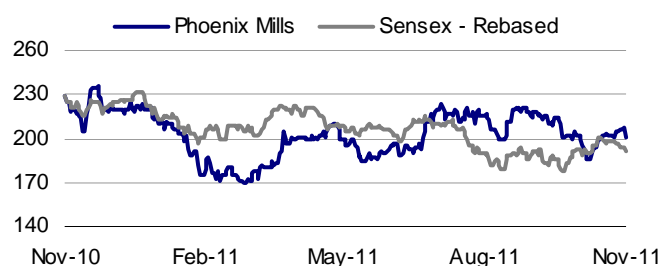
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	8.4	8.5	-0.2
FY13	10.7	11.0	-2.7

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
200	255	27.5	Buy

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Net Sales	996	1,230	2,102	3,850	5,318	
EBITDA	602	775	1,406	2,386	3,404	
% of Net Sales	60.4	63.0	66.9	62.0	64.0	
Depreciation	93	172	314	500	829	
Interest	55	86	228	489	1,106	
Other Income	503	243	287	254	361	
PBT	957	759	1,151	1,651	1,830	
Tax	190	147	321	461	510	
Rate (%)	19.8	19.4	27.9	27.9	27.9	
Reported PAT	768	617	830	1,191	1,553	
Adjusted PAT	768	617	818	1,223	1,553	
Change (%)	79.5	-19.6	32.6	49.6	27.0	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Equity Capital	290	290	290	290	290	
Reserves	14,858	15,759	16,410	17,336	18,593	
Net Worth	15,147	16,048	16,700	17,626	18,882	
Loans	5,452	6,608	9,626	12,626	12,826	
Deferred Tax Liability	-11	-24	-9	-9	-9	
Minority Interest	2,119	2,190	1,965	1,965	1,965	
Capital Employed	22,706	24,823	28,282	32,208	33,665	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Gross Fixed Assets	4,881	7,955	8,880	13,377	16,389	
Less: Depreciation	462	633	948	1,447	2,276	
Net Fixed Assets	4,419	7,321	7,932	11,930	14,112	
Capital WIP	9,004	9,137	11,245	11,399	8,937	
Investments	4,525	5,601	4,787	4,787	4,787	
Curr. Assets	6,344	4,736	8,584	8,666	11,197	
Inventory	3	3	1,182	944	1,085	
Debtors	351	431	961	1,058	1,269	
Cash & Bank Balance	1,910	671	1,021	1,059	3,007	
Inventory	3	3	1,182	944	1,085	
Loans and Advances	4,077	3,628	4,238	4,662	4,751	
Current Liab. & Prov	1,583	1,969	3,084	3,629	4,283	
Creditors	1,794	1,724	2,725	3,270	3,924	
Other Liabilities	439	0	0	0	0	
Provisions	228	244	359	359	359	
Net Current Assets	4,758	2,764	4,318	4,094	5,829	
Application of Funds	22,706	24,823	28,282	32,208	33,665	

E: MOSL Estimates

Ratios		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Basic (INR)						
Adjusted EPS	5.3	4.3	5.6	8.4	10.7	
Growth (%)	68.1	-19.6	32.6	49.6	27.0	
Cash EPS	5.9	5.4	7.9	11.7	14.8	
Book Value	104.6	110.8	115.3	121.7	130.4	
DPS	0.0	0.6	0.9	1.8	1.8	
Payout (incl. Div. Tax.)	22.1	17.0	17.4	24.3	19.1	
Valuation (x)						
P/E			35.4	23.7	18.6	
Cash P/E			25.3	17.1	13.5	
EV/EBITDA			26.7	17.0	11.4	
EV/Sales			17.9	10.5	7.3	
Price/Book Value			1.7	1.6	1.5	
Profitability Ratios (%)						
RoE	5.1	3.8	4.9	6.9	8.2	
RoCE	5.1	3.6	5.2	7.1	8.9	
Leverage Ratio						
Debt/Equity (x)	0.2	0.4	0.5	0.7	0.5	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
PBT before Extraordinary	957	759	1,151	1,651	1,830	
Add: Depreciation	93	172	314	500	829	
Interest	55	86	228	489	1,106	
Less: Direct Taxes Paid	190	147	321	461	510	
(Inc)/Dec in WC	841	-756	1,204	-263	-212	
CF from Operations	742	1,702	-69	2,475	3,702	
(Inc)/Dec in FA	-5,191	-3,207	-3,034	-4,650	-550	
(Pur)/Sale of Investments	1,815	-1,076	814	0	0	
CF from Investment:	-2,150	-4,283	-2,219	-4,650	-550	
(Inc)/Dec in Net Worth	1,703	376	-9	0	-1	
(Inc)/Dec in Debt	2,404	1,156	3,018	3,000	200	
Less: Interest Paid	55	86	228	489	1,106	
Dividend Paid	169	105	142	297	297	
CF from Fin. Activity	3,295	1,342	2,639	2,214	-1,205	
Inc/Dec of Cash	1,887	-1,239	351	39	1,947	
Add: Beginning Balance	22	1,910	671	1,021	1,059	
Closing Balance	1,909	670	1,021	1,060	3,006	

N O T E S

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Phoenix Mills

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