

28 January 2011

MF Global Quarterly Report

Phoenix Mills Ltd.

| Good show on back of palladium

REAL ESTATE

PHNX IN: Upgrade to BUY

RS 206

Phoenix Mills Ltd.'s (PML) Q3FY11 results were better than expectations in terms of the top line, and bottom line. Top line was up by 49% from Rs 301.84mn in Q2FY10 to Rs 450mn in Q3FY11. It was able to deliver higher revenue growth on account of higher area being operational.

- Its high-end luxury retail outlet, Palladium, at High Street Phoenix (HSP), has started contributing in terms of revenues. The new stores opened in Q3 were likes of Veda, Armani, Levi's, Crew Republica etc.
- EBITDA was up by 85% in absolute terms. Margins were firm at 72.6% against 71.6% as Palladium's operations has begun to stabilise coupled with higher degree of operational efficiencies.
- Depreciation was slightly higher on account of commissioning of palladium and parking facilities.
- PAT was up 133% yoy at Rs 237.70mn. interest cost was down due to repayment of loans. on qoq basis, net profits were up 7%

Valuations

PML's business model looks quite robust and attractive in the long run, with the company's strategy to expand aggressively in retail-led mixed use development. Also, with its asset-heavy model at HSP, it has stable revenue streams in terms of lease rentals. We expect HSP to garner ~Rs 1.8bn (CAGR of 34%) as lease rentals in FY12 on a leasable 1.15msf. We have valued PML on a SOTP; stock at present valuation is trading at 31% discount to its FY12 SOTP of Rs 268. This discount provides an opportunity to BUY as its an low risk retail asset company, with a) its prime asset locations b) strong rental annuity of HSP which provides stable cash flows c) relatively insulated from the recent sector issues on policy front d) ~1.5 LSFT of space is under rental negotiation (which may provide ~Rs 100 mn additional rental per year from sept onwards). We upgrade to BUY.

VALUATION SUMMARY

Y/E MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
NET SALES	821	996	1,230	2,579	3,213
GROWTH, %	-17.0	21.3	23.5	109.6	24.6
EBIDTA	499	602	775	1,702	1,992
EBIDTA MARGINS, %	60.8	60.4	63.0	66.0	62.0
NET PROFIT	426	767	614	990	1,554
NET PROFIT MARGIN, %	51.9	77.0	49.9	38.4	48.4
EPS, RS	3.1	5.3	4.2	6.8	10.7
PER, X	65.6	38.9	48.6	30.1	19.2
EV/EBIDTA, X	31.3	26.8	23.9	11.9	9.5
PRICE/BOOK VALUE, X	2.0	1.7	1.6	1.6	1.5
ROIC, %	4.6	3.6	3.5	6.4	7.0
ROE, %	5.9	5.0	3.5	5.3	7.9
DIVIDEND YIELD, %	0.5	0.5	0.5	0.5	0.5

Source: Company, MF Global India Research Estimates

TARGET RS 268 (+30%)

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	145MN
MARKET CAP (RS):	30BN
MARKET CAP (USD):	654MN
52 - WK HI/LO (RS):	269 / 176
LIQUIDITY 3M (USD):	0.3MN
FACE VALUE (RS):	2

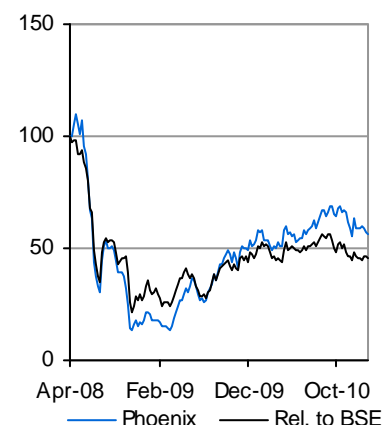
SHARE HOLDING PATTERN, %

PROMOTERS:	65.9
FII / NRI:	21.8
FI / MF:	5.6
NON-PROMOTER CORP. HOLDINGS:	1.1
PUBLIC & OTHERS:	5.7

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-8.3	-18.5	4.3
REL TO BSE	-1.4	-10.9	-7.1

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

QUARTERLY RESULTS

RS MN	Q3FY11	Q2FY11	Q3FY10	YOY	QOQ
NET SALES	450.72	443.38	301.84	49%	2%
TOTAL EXPENSES	123.4	126.1	124.7	-1%	-2%
CONSUMPTION OF RAW MATERIALS	0.00	0.00	0.00		
PURCHASES OF TRADED GOODS	2.95	1.24	1.33	122%	138%
STAFF COST	15.12	13.26	9.80	54%	14%
INCREASE/DEC STOCK IN TRADE	(0.40)	0.46	0.34	-217%	-186%
OTHER EXP	105.78	111.10	113.18	-7%	-5%
EBIDTA	327.28	317.32	177.19	85%	3%
OTHER INCOME	71.02	66.01	47.27	50%	8%
PBDIT	398.30	383.34	224.46	77%	4%
INTEREST	19.05	29.09	31.25	-39%	-35%
GROSS PROFIT	379.26	354.25	193.21	96%	7%
DEPRECIATION	69.61	69.50	52.80	32%	0%
PBT	309.65	284.75	140.41	121%	9%
TAX	71.95	63.52	38.52	87%	13%
PAT	237.70	221.22	101.89	133%	7%
EXTRAORDINARY ITEMS	0.00	0.00	0.00		
ADJUSTED NET PROFIT	237.70	221.22	101.89	133%	7%
EQUITY CAPITAL	289.7	289.7	289.7		
EQUITY SHARES	144.8	144.8	144.8		
EPS	1.6	1.5	0.7	133%	7%
KEY RATIOS (%)					
EBIDTA MARGIN	72.6%	71.6%	59%		
PBDIT MARGIN	88.4%	86.5%	74.4%		
INTEREST / SALES	4%	7%	10%		
TAX / PBT	23%	22%	27%		
NPM	53%	50%	34%		

Source: Company, MF Global India Research

Key highlights

In the retail space, overall, the market is still improving with lease enquires picking up, and retailers going for pre-commitments on leasing. There has been a significant development in construction activities, in the different market cities which the Group is developing, at four locations namely: Mumbai, Pune, Bangalore and Chennai.

In case of Pune market city, the handover of licensed premises to retailers for fit-outs has commenced. Over 130 retailers have commenced fit outs. It will be operational by March 11.

In case of Bangalore market city, LOIs over 70% done. Handover of premises to retailers for Phoenix Market City, Bangalore (E) and at Kurla, Mumbai has commenced. It may start contributing by Q1fy12. Leave-and-license agreements are being executed with the retailers. Critical mass for fitouts would be achieved in the next three months and the malls are expected to open for trading by end Q1-FY2012. Chennai market city will come by 2012 end.

In case of Pallazzio Hotels and Leisure Ltd. (Shangri-La Hotel, Mumbai) the debt at SPV level, including ECB for this hotel project has been refinanced at lower levels during the last quarter. Drawdown of funds under the new facility is expected to happen shortly. Work is progressing on site and the hotel is expected to commence operations by Q2-FY2012.

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
NET SALES	821	996	1,230	2,579	3,213
GROWTH, %	-17	21	23	110	25
OTHER INCOME	0	0	0	0	0
TOTAL INCOME	821	996	1,230	2,579	3,213
OPERATING EXPENSES	-322	-394	-455	-877	-1,221
EBITDA (CORE)	499	602	775	1,702	1,992
GROWTH, %	(30.3)	20.5	28.8	119.5	17.0
MARGIN, %	60.8	60.4	63.0	66.0	62.0
DEPRECIATION	-76	-93	-171	-762	-300
EBIT	423	508	605	940	1,692
GROWTH, %	(30.3)	20.5	28.8	119.5	17.0
MARGIN, %	60.8	60.4	63.0	66.0	62.0
INTEREST PAID	-45	-55	-86	-120	-120
OTHER NON-OPERATING INCOME	240	503	243	500	500
NON-RECURRING ITEMS	0	0	0	0	0
PRE-TAX PROFIT	619	957	761	1,320	2,072
TAX PROVIDED	-192	-190	-147	-330	-518
PROFIT AFTER TAX	426	767	614	990	1,554
NET PROFIT	426	767	614	990	1,554
MF NET PROFIT	426	767	614	990	1,554
GROWTH, %	6.6	79.9	(19.9)	61.2	56.9
NET PROFIT (ADJUSTED)	426	767	614	990	1,554
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	0	0	0	0	0
UNADJ. SHARES (M)	136	145	145	145	145
WTD AVG SHARES (M)	136	145	145	145	145

CASH FLOW

Y/E MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
PRE-TAX PROFIT	619	957	761	1,320	2,072
DEPRECIATION	76	93	171	762	300
CHG IN WORKING CAPITAL	-134	-842	736	-346	-222
TOTAL TAX PAID	-192	-190	-147	-330	-518
CASH FLOW FROM OPERATING ACTIVITIES	369	19	1,521	1,407	1,632
CAPITAL EXPENDITURE	-6,076	-5,191	-3,206	-3,000	0
CHG IN INVESTMENTS	-6,232	1,815	-1,076	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-12,309	-3,376	-4,282	-3,000	0
FREE CASH FLOW	-11,940	-3,357	-2,761	-1,593	1,632
EQUITY RAISED/(REPAID)	11,700	1,722	0	0	0
DEBT RAISED/(REPAID)	-495	2,404	1,158	3,392	-921
DIVIDEND (INCL. TAX)	-169	-169	-169	-169	-169
OTHER FINANCING ACTIVITIES	8	-18	461	-2	1
CASH FLOW FROM FINANCING ACTIVITIES	11,856	5,245	1,522	3,221	-1,089
NET CHG IN CASH	-85	1,888	-1,240	1,627	543

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
CASH & BANK	22	1,910	671	2,298	2,841
MARKETABLE SECURITIES AT COST	0	0	0	0	0
DEBTORS	216	351	431	903	1,125
INVENTORY	3	3	3	3	3
LOANS & ADVANCES	4,052	4,077	3,628	3,628	3,628
OTHER CURRENT ASSETS	0	0	0	0	0
TOTAL CURRENT ASSETS	4,293	6,341	4,732	6,831	7,596
INVESTMENTS	6,340	4,525	5,601	5,601	5,601
GROSS FIXED ASSETS	3,689	4,881	7,955	13,955	16,955
LESS: DEPRECIATION	-369	-462	-633	-1,395	-1,695
ADD: CAPITAL WIP	5,006	9,004	9,137	6,137	3,137
NET FIXED ASSETS	8,326	13,423	16,458	18,696	18,396
NON-CURRENT ASSETS	0	0	0	0	0
TOTAL ASSETS	18,958	24,289	26,791	31,128	31,593
CURRENT LIABILITIES	2,047	1,354	1,724	1,850	1,850
PROVISIONS	217	228	224	224	224
TOTAL CURRENT LIABILITIES	2,263	1,583	1,949	2,074	2,074
NON-CURRENT LIABILITIES	3,046	5,450	6,608	10,000	9,079
TOTAL LIABILITIES	5,309	7,032	8,557	12,074	11,153
PAID-UP CAPITAL	271	290	290	290	290
RESERVES & SURPLUS	12,565	14,849	15,754	16,575	17,959
SHAREHOLDERS' EQUITY	13,649	17,257	18,234	19,055	20,439
TOTAL EQUITY & LIABILITIES	18,958	24,289	26,791	31,128	31,593

PER-SHARE DATA

	FY2008	FY2009	FY2010	FY2011E	FY2012E
MF GLOBAL EPS (RS)	3.1	5.3	4.2	6.8	10.7
FDEPS (INR)	3.1	5.3	4.2	6.8	10.7
CEPS (INR)	3.7	5.9	5.4	12.1	12.8
CFPS (INR)	0.9	(3.3)	8.8	6.3	7.8
DPS (INR)	1.1	1.0	1.0	1.0	1.0

FINANCIAL STRUCTURE

	FY2008	FY2009	FY2010	FY2011E	FY2012E
TOTAL DEBT/EQUITY	22.3	31.6	36.2	52.5	44.4
NET DEBT/EQUITY	22.2	20.5	32.6	40.4	30.5

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2008	FY2009	FY2010	FY2011E	FY2012E
RETURN ON ASSETS (%)	3.8	3.7	2.6	3.7	5.2
RETURN ON EQUITY (%)	5.9	5.0	3.5	5.3	7.9
RETURN ON INVESTED CAPITAL (%)	4.6	3.6	3.5	6.4	7.0
ROIC/COST OF CAPITAL (X)	0.6	0.4	0.4	0.7	0.8
ROIC - COST OF CAPITAL (%)	(3.7)	(5.0)	(5.1)	(2.4)	(1.7)
RETURN ON CAPITAL EMPLOYED (%)	4.2	4.0	2.8	3.9	5.5
COST OF CAPITAL (%)	8.4	8.5	8.6	8.8	8.7
ROCE - COST OF CAPITAL (%)	(4.1)	(4.5)	(5.8)	(4.9)	(3.2)
ASSET TURNOVER (X)	0.1	0.1	0.1	0.1	0.2
SALES/TOTAL ASSETS (X)	0.1	0.0	0.0	0.1	0.1
SALES/NET FA (X)	0.2	0.1	0.1	0.1	0.2
WORKING CAPITAL/SALES (X)	2.7	3.1	1.9	1.0	0.9
FIXED CAPITAL/SALES (X)	-	-	-	-	-
RECEIVABLE DAYS	95.9	128.6	127.9	127.7	127.8
INVENTORY DAYS	1.2	1.2	0.9	0.4	0.3
PAYABLE DAYS	1,989.1	975.5	941.1	562.1	403.6
CURRENT RATIO (X)	2.1	4.7	2.7	3.7	4.1
QUICK RATIO (X)	2.1	4.7	2.7	3.7	4.1
INTEREST COVER (X)	9.5	9.3	7.0	7.8	14.1
DIVIDEND COVER (X)	2.9	5.3	4.2	6.8	10.7
PER (X)	65.6	38.9	48.6	30.1	19.2
PEG (X) - Y-O-Y GROWTH	(1.3)	0.6	(2.4)	0.5	0.3
PRICE/BOOK (X)	2.0	1.7	1.6	1.6	1.5
YIELD (%)	0.5	0.5	0.5	0.5	0.5
EV/NET SALES (X)	19.0	16.2	15.1	7.9	5.9
EV/EBITDA (X)	31.3	26.8	23.9	11.9	9.5
EV/EBIT (X)	31.3	26.8	23.9	11.9	9.5
EV/NOPLAT (X)	51.0	39.2	29.5	14.8	12.8
EV/CE	0.9	0.7	0.7	0.7	0.6
EV/IC (X)	2.1	1.2	1.1	1.0	0.9

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
BUY	268	206	28 JAN 11
NEUTRAL	268	249	1 NOV 10
BUY	238	207	17 JUL 10
BUY	238	198	11 FEB, 10
BUY	238	150	6,NOV,09
BUY	238	165	11 OCT, 09

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Rating Rationale

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