

SPV's phase 2 development – Growth Catalysts

January 24, 2012

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs.189	Rs.231
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,127
Sensex	16,996

Price Performance

(%)	1M	3M	6M	12M
Absolute	16	(1)	(12)	(9)
Rel. to Nifty	6	(2)	(5)	2

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Real Estate
Bloomberg	PHNX@IN
Equity Capital (Rs mn)	290
Face Value(Rs)	2
No of shares o/s (mn)	145
52 Week H/L	229/149
Market Cap (Rs bn/USD mn)	27/539
Daily Avg Volume (No of sh)	29720
Daily Avg Turnover (US\$m)	0.1

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	65.9	65.9	65.9
FII/NRI	22.7	22.5	22.3
Institutions	5.4	5.4	5.2
Private Corp	1.0	1.0	1.1
Public	5.0	5.2	5.5

Source: Capitaline

Tejas Sheth

tejas.sheth@emkayglobal.com
+91 22 6624 2482

- On completion of Phase 1 of most Market City (MC) projects, monetization of Phase 2 developments will set course for company's growth path
- Phoenix Mills' (PML) now subsidiary Phoenix Hospitality changes most of its development formats from hotels to residential & commercial – A positive move
- Debt at the standalone level goes up by Rs 240mn to Rs 2.7bn as the company continues to provide additional capital to SPVs to bridge finance the phase 2 development
- We maintain our Accumulate rating with TP of Rs 231. Clarity on cashflows from phase 2 of MC projects will demand the change in rating

Standalone results has best quarter in the history, Rentals & Margins above expectations

Revenue at Rs 505mn grew by 12% YoY and was 4.4% above estimates as the rentals from area under negotiation started flowing and revenue sharing. Revenue sharing contributed Rs 45mn to the topline. EBITDA at Rs 373mn grew by of 16.5% YoY and was 8.9% above estimates. EBITDA margin at 73.9% increased by 282bps YoY and 381bps QoQ due to higher rentals and lower Other Expenditure. Interest cost increased to Rs 57mn accounting for first full quarter after company borrowed Rs 2.4bn in Q2FY12

MC projects operational ramp up is slower than expected and lease status of the malls remained at pre-launch levels

MC Mumbai and MC Bangalore saw improvement in the operation area post their opening in Q3FY12 while MC Pune had same occupancy rate of 65% as seen in Q2FY12. The pre-lease areas of all the MC Projects remain at the pre-opening levels of 70-75% and haven't seen any new leasing. The management stated that it is a strategic decision of holding the additional leasing and expects 80-85% operational ramp up over next 1-2 quarters

MC Projects' retail space will not generate free cash until debt is repaid from cash generation of phase 2 of these projects

MC Pune generated exit monthly EBITDA of Rs 37.9mn. Monthly interest cost (@14%) on the borrowings of the same project comes to Rs 55mn. This shows that at higher occupancy levels also the rentals for MC Pune project will only meet its interest obligations and will not generate any free cash. (See table in next page). We believe the similar situation holds across the MC projects wherein the debt reduction will not happen till the phase 2 of these projects comprising of office & residential space are monetized. PML has already provided capital in form of loans to these SPVs for developing the next phase and may also partner the SPVs in joint development of these assets through equity participation. We believe the debt reduction of these SPVs will take sometime as phase 2 developments and monetization is atleast 12-18 months away

Valuation table (Consolidated)

Rs mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	1,230	775	63.0	620	4.3	(19.2)	4.0	44.2	43.0	1.8
FY11	2,202	1,506	68.4	842	5.8	35.9	5.1	32.5	23.9	1.7
FY12E	3,938	2,372	60.2	1,262	8.2	40.5	6.9	23.1	17.1	1.6
FY13E	5,577	3,157	56.6	987	7.0	(13.8)	5.7	26.8	12.8	1.5

Source: Company, Emkay Research

PML converts its share application money into equity share of Phoenix Hospitality Pvt. Ltd. (PHPL); the cashflow to the transaction was done in 2007

PML had signed a MOU with PHPL in 2007 for acquiring 75% in the company at Rs 3.5bn. PML had invested Rs 1.5bn in PHPL in form of share application money which got converted into 56.9% stake by the company in PHPL. PML has an option to invest balance Rs 2.0bn for taking its stake upto 75%.

PHPL was formed to develop hospitality assets including the ones planned across MC projects. With the slowdown in the economy the development of these assets was stalled although the company had acquired the development rights to develop hotels from the resp. SPVs. PHPL, considering the current environment, has converted four out of the five assets under development to either residential projects or mix of residential, commercial & hotel. We believe this is a positive move considering the huge oversupply seen in the hospitality sector leading to lower return on investments made in developing these assets.

Company intends to launch Bangalore (W) residential project in June 2012

On conversion of the hotel project by PHPL at Bangalore (W) into residential project, the new planned development will comprise of 3.1msf of residential development. PML will have aggregate (direct and indirect) stake of 59.2% in the project which will be launched in June 2012. Company intends to develop the same in phases over period of 4-5 years and expects total investment of Rs 10bn.

Considering the location of the project at Malleswaram, the realisation per sq ft will be at Rs 4800 – 5000 / sf and will take atleast 5-6 years for it to be absorbed

Most of net rentals generation at MC projects will go towards interest cost servicing

Market City	Capital Employed Rs mn	Equity Rs mn	Asset Sale Cash inflow * Rs mn	Total Debt Rs mn	D/E	Interest Cost @ 14% Rs mn	Leasable Area sf	Avg. Rental Rs/sf/ mth	Occupancy Break-even
Pune	7800	1568	1100	5132	3.3	745	1200000	65	80.0%
Mumbai	11250	3091	900	7259	2.3	1146	1300000	95	80.0%
Bangalore (E)	5450	1950		3500	1.8	525	900000	65	72.0%
Chennai	4750	1500		3250	2.2	490	1000000	80	51.0%

* Cash inflow from new asset sale and phase 2 monetisation not considered

Key Quarterly Summary (Standalone)

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12E	YoY (%)	QoQ (%)	9MFY12	9MFY11	YoY (%)
Revenue	451	468	471	474	505	12.0	6.5	1,450	1,298	11.6
Expenditure	130	144	140	142	132	1.1	(7.1)	140	111	25.4
<i>as % of sales</i>	28.9	30.7	29.7	29.9	26.1			9.6	8.6	
Cost of Sales	9	0	0	0	0			0	15	(100.0)
<i>as % of sales</i>	2.1	0.0	0.0	0.0	0.0			0.0	1.2	
Employee Cost	15	12	15	18	19	28.7	8.7	52	42	22.4
<i>as % of sales</i>	3.4	2.5	3.1	3.8	3.9			3.6	3.3	
Other expenditure	106	132	125	124	112	6.1	(9.4)	361	312	15.9
<i>as % of sales</i>	23.5	28.1	26.6	26.1	22.2			24.9	24.0	
EBITDA	320	324	331	332	373	16.5	12.3	1,310	1,187	10.3
Depreciation	70	70	67	69	74	5.9	7.0	210	208	0.9
EBIT	251	255	264	264	300	19.4	13.7	1,100	979	12.3
Other Income	71	141	110	89	113	58.8	27.2	311	181	72.3
Interest	19	3	10	31	57	199.1	86.9	98	83	18.2
PBT	303	393	363	322	355	17.3	10.5	1,314	1,077	21.9
Total Tax	72	118	91	84	86			261	187	
Adjusted PAT	231	275	272	238	269	16.5	13.1	1,052	890	18.2
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	231	275	272	238	269	16.5	13.1	1,052	890	18.2
Extra ordinary items	0	0	0	0	0			-1	-1	
Reported PAT	231	275	272	238	269	16.5	13.2	1,052	890	18.2
Reported EPS	1.6	1.9	1.9	1.6	1.9			5.4	4.4	

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	71.1	69.3	70.3	70.1	73.9	282	381	90.4	91.4	-106
EBIT	55.7	54.4	56.1	55.6	59.3	366	374	75.9	75.4	48
EBT	67.2	84.0	77.2	67.9	70.4	318	252	90.6	83.0	766
PAT	51.2	58.8	57.9	50.2	53.3	203	310	72.6	68.6	404
Effective Tax rate	23.8	30.0	25.0	26.1	24.3	56	-176	267.3	226.2	4114

Financials (Consolidated)

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Revenue	1230	2202	3938	5577
<i>Growth (%)</i>	20.5	78.9	78.9	41.6
Expenditure	455	696	1567	2420
Cost of Sales	37	97	1063	1835
Employee Cost	67	141	169	194
Other Exp	351	458	335	390
EBITDA	775	1506	2372	3157
<i>Growth (%)</i>	23.9	94.2	57.5	33.1
EBITDA margin (%)	63.0	68.4	60.2	56.6
Depreciation	172	314	568	990
EBIT	603	1191	1804	2167
EBIT margin (%)	49.0	54.1	45.8	38.9
Other Income	243	187	178	211
Interest expenses	86	228	353	1117
PBT	760	1151	1629	1262
Tax	147	321	366	275
<i>Effective tax rate (%)</i>	19.4	27.9	22.5	21.8
Adjusted PAT	613	830	1262	987
<i>Growth (%)</i>	(20.1)	35.5	52.1	(21.8)
Net Margin (%)	50	38	32	18
(Profit)/loss from JVs/Ass/MI	(7)	(12)	79	(33)
Adjusted PAT After JVs/Ass/MI	620	842	1183	1020
E/O items	0	0	0	0
Reported PAT	620	842	1183	1020
<i>Growth (%)</i>	(19.2)	35.9	40.5	(13.8)

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	321	673	1067	779
Depreciation	172	314	568	990
Interest Provided	86	228	353	1117
Other Non-Cash items	0	0	0	0
Chg in Working Cap	756	(1204)	(3194)	(577)
Tax paid	(147)	(321)	(366)	(275)
Operating Cashflow	1188	(311)	(1573)	2033
Capital expenditure	3208	3033	2858	1147
Free Cash Flow	(2020)	(3344)	(4431)	886
Other income	243	187	178	211
Investments	(1076)	814	38	0
Investing Cashflow	(833)	1002	216	211
Equity Capital Raised	281	(191)	(305)	(305)
Loans Taken / (Repaid)	1156	3018	4532	636
Interest Paid	(86)	(228)	(353)	(1117)
Dividend paid (incl tax)	203	303	305	305
Income from investments	0	0	0	0
Others	59	(210)	88	(33)
Financing Cashflow	1613	2693	4268	(513)
Net chg in cash	(1239)	351	52	584
Opening cash position	1910	671	1021	1073
Closing cash position	671	1021	1073	1657

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	290	290	290	290
Reserves & surplus	15,759	16,410	17,288	18,003
Net worth	16,048	16,700	17,578	18,293
Minority Interest	2,190	1,965	2,045	2,012
Secured Loans	6,572	9,326	9,323	9,323
Unsecured Loans	36	300	4,835	5,471
Loan Funds	6,608	9,626	14,158	14,794
Net deferred tax liability	(24)	(9)	-	-
Total Liabilities	24,822	28,282	33,780	35,099
Gross Block	7,955	8,880	13,610	23,313
Less: Depreciation	633	948	1,516	2,505
Net block	7,321	7,932	12,095	20,807
Capital work in progress	9,137	11,245	9,373	818
Goodwill	0	0	0	0
Investment	5,601	4,786	4,748	4,748
Current Assets	4,732	7,402	12,429	13,633
Inventories	3	1,182	4,872	5,491
Sundry debtors	431	961	0	0
Cash & bank balance	671	1,021	1,073	1,657
Loans & advances	3,628	4,238	6,485	6,485
Other current assets	-	-	-	-
Current lia & Prov	1,969	3,084	4,865	4,907
Current liabilities	1,724	2,725	4,513	4,555
Provisions	244	359	352	352
Net current assets	2,764	4,318	7,564	8,726
Total Assets	24,823	28,282	33,780	35,099

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	63.0	68.4	60.2	56.6
Net Margin	49.8	37.7	32.1	17.7
ROCE	2.5	4.5	5.8	6.3
ROE	4.0	5.1	6.9	5.7
RoIC	7.2	11.5	12.1	9.3
Per Share Data (Rs)				
EPS	4.3	5.8	8.2	7.0
CEPS	5.5	8.0	12.1	13.9
BVPS	106.8	111.3	117.4	122.3
DPS	1.2	1.8	1.8	1.8
Valuations (x)				
PER	44.2	32.5	23.1	26.8
P / CEPS	34.6	23.7	15.6	13.6
P / BV	1.8	1.7	1.6	1.5
EV / Sales	27.6	16.8	10.5	7.6
EV / EBITDA	43.0	23.9	17.1	12.8
Dividend Yield (%)	0.6	1.0	1.0	1.0
Gearing Ratio (x)				
Net Debt/ Equity	0.4	0.5	0.7	0.7
Net Debt/EBITDA	0.4	0.5	0.7	0.6

Recommendation History: Phoenix Mills – PHNX IN

Date	Reports	Reco	CMP	Target
15/11/2011	Phoenix Mills Q2FY12 Result Update	Accumulate	200	231
02/08/2011	Phoenix Mills Q1FY12 Result Update	Accumulate	214	231
29/04/2011	Phoenix Mills Q4FY11 Result Update	Buy	202	231
01/04/2011	Phoenix Mills Initiating Coverage	Buy	182	231

Recent Research Reports

Date	Reports	Reco	CMP	Target
12/01/2012	Bangalore Real Estate Sector Report			
16/11/2011	Arshiya International Q2FY12 Result Update	Not Rated	150	NA
11/11/2011	DLF Q2FY12 Result Update	Reduce	228	220
17/10/2011	Oberoi Realty Q2FY12 Result Update	Accumulate	235	275

Emkay Global Financial Services Ltd.

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

DISCLAIMER: Emkay Global Financial Services Limited and its affiliates are a full-service, brokerage, investment banking, investment management, and financing group. We along with our affiliates are participants in virtually all securities trading markets in India. Our research professionals provide important input into our investment banking and other business selection processes. Investors may assume that Emkay Global Financial Services Limited and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Emkay Global Financial Limited or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Emkay. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of Emkay or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.