

Phoenix Mills

SG&A and depreciation costs crimp PAT

Phoenix Mills (PML) has posted a net sales growth of 37% YoY to Rs 302mn during Q3FY10, marginally below our estimates. The EBIT margin dropped to 41.2% as against 58.8% in Q2FY10 owing to a sharp rise in SG&A expenses (on festive promotions and one-time repairs), as well as depreciation. The margin squeeze took PAT below our estimates, as it declined 31% YoY and 42% QoQ to Rs 102mn. We expect the commencement of full-scale operations at Palladium (management targets 95% occupancy by March) to drive lease income and profitability going forward. Maintain Buy.

Net sales marginally below estimates: PML's net sales increased 37% YoY and 14% QoQ to Rs 302mn, against our estimate of Rs 316mn. The luxury mall, Palladium, contributed Rs 39mn to the topline after being operational at 28% of its capacity during the quarter.

High SG&A expenses dent margins: The EBITDA margin dropped 11 percentage points YoY to 58.7% as SG&A expenses shot up 151% YoY and 62% QoQ to Rs 53mn. The spike in costs arose from a one-time charge of Rs 25mn during the quarter – this included Rs 10mn spent on major repair and maintenance for phase I and phase II of High Street Phoenix which occurs every three years, Rs 5mn spent on promotions during the festive season, and Rs 5mn–6mn incurred towards marketing commission and brokerage. In addition, the company booked 100% of CAM (common area maintenance) expenses in Q3 despite earning only 25–30% of CAM revenues from Palladium.

The EBIT margin declined further to 41.2% as against 60.7% in Q3FY09 and 58.8% in Q2FY10. This stemmed from a spike in depreciation cost to Rs 53mn (up 151% YoY and 98% QoQ), as Palladium charges were expensed out of the profit & loss account as against the practice of capitalisation seen in previous quarters.

Palladium to boost lease income: The Palladium mall covers a leasable retail space of 0.3msf. PML has already pre-leased up to 95% of this area, with the mall being 28% operational. The company targets an occupancy level of 95% by March '10. We expect Palladium to contribute revenues of Rs 110mn and Rs 454mn from Q4FY10 and FY11 onwards at 70% occupancy. Rental revenues for PML are thus projected to expand from Rs 900mn in FY09 to Rs 1.3bn in FY10. This will rise further to Rs 1.7bn in FY11 when the full-year revenue contribution from Palladium starts flowing in.

Maintain Buy: With strong prospects from the ramp-up at Palladium, we maintain our Buy rating on the stock with an NAV-based target price of Rs 223.

Financial highlights

(Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	996	1,292	2,334	5,281
Growth (%)	21.3	29.7	80.6	126.3
Adj net income	767	640	788	2,188
Growth (%)	79.3	(16.5)	23.2	177.5
FDEPS (Rs)	5.3	4.4	5.4	15.1
Growth (%)	79.3	(16.5)	23.2	177.5

Profitability and return ratios

(%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	60.4	67.3	73.9	78.0
EBIT margin	51.0	55.1	63.7	71.2
Adj PAT margin	77.0	49.5	33.8	41.4
ROE	5.5	4.2	5.1	13.2
ROIC	2.5	2.5	3.9	8.6
ROCE	4.4	3.2	3.5	8.3

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 198	Rs 223	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532873	PHOENIXLTD	PHNX IN

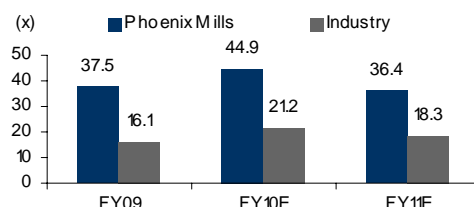
Company data

Market cap (Rs bn / US\$ mn)	28.7 / 622
Outstanding equity shares (mn)	145
Free float (%)	34.1
Dividend yield (%)	0.5
52-week high/low (Rs)	227 / 44
2-month average daily volume	322,727

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Phoenix mills	198	4.8	32.6	67.6
BSE Realty	3,500	(8.8)	(8.4)	(10.5)
Sensex	16,358	(6.0)	1.9	7.8

P/E comparison



Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	37.5	44.9	36.4	13.1
P/E @ Target	42.2	50.5	41.0	14.8
EV/EBITDA @ CMP	57.6	39.9	20.1	8.4





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	302	316	(4.6)
EBITDA	177	229	(22.7)
Adj net income	102	197	(48.4)
FDEPS (Rs)	0.7	1.4	(48.4)

Source: RHH

Fig 2 - Quarterly performance

(Rs mn)	Q3FY10	Q3FY09	% Chg YoY	Q2FY10	% Chg QoQ
Revenue	302	221	36.7	264	14.4
Expenditure	125	66	89.7	82	51.9
Operating profit	177	155	14.2	182	(2.6)
Other income	47	62	(23.6)	83	(42.8)
Interest	31	9	243.4	10	222.7
Depreciation	53	21	151.2	27	97.8
PBT	140	187	(24.9)	228	(38.4)
Tax	39	39	(2.2)	53	(26.9)
PAT	102	148	(30.9)	175	(41.9)
EBITDA margin (%)	58.7	70.3	(1,155bps)	68.9	(1,020bps)
FDEPS (Rs)	0.7	1.0	(30.9)	1.21	(41.9)

Source: Company, RHH

Fig 3 - Revised estimates

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	1,507	1,292	(14.3)	3,564	2,334	(34.5)
EBITDA margin (%)	66.5	67.3	80bps	65.7	73.9	820bps
Net profit	978	640	(34.6)	1,533	788	(48.6)
FDEPS (Rs)	6.8	4.4	(34.6)	10.6	5.4	(48.6)

Source: RHH

PAT much below estimates on sharp increase in SG&A cost and depreciation

SG&A expenses shot up 150% YoY, apart from a one-time expense of Rs 25mn on repairs and promotions

Depreciation on Palladium charged to P&L and not capitalised as in the past

Revision in estimates factoring delay in operation of palladium and Bangalore residential project



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Revenues	996	1,292	2,334	5,281
Growth (%)	21.3	29.7	80.6	126.3
EBITDA	602	870	1,725	4,119
Growth (%)	20.2	44.6	98.2	138.8
Depreciation & amortisation	93	158	238	362
EBIT	508	508	712	1,486
Growth (%)	19.7	-	40.1	108.7
Interest	55	87	167	340
Other income	503	233	245	245
EBT	957	858	1,564	3,662
Income taxes	190	218	526	1,225
Effective tax rate (%)	19.8	25.4	33.6	33.4
Extraordinary items	-	-	-	-
Min into / inc from associates	(1)	-	250	250
Reported net income	768	640	788	2,188
Adjustments	1	-	-	-
Adjusted net income	767	640	788	2,188
Growth (%)	79.3	(16.5)	23.2	177.5
Shares outstanding (mn)	144.8	144.8	144.8	144.8
FDEPS (Rs) (adj)	5.3	4.4	5.4	15.1
Growth (%)	79.3	(16.5)	23.2	177.5
DPS (Rs)	1.0	1.0	1.0	1.0

Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	861	798	1,026	2,550
Non-cash adjustments	(337)	19	265	260
Changes in working capital	71	(6)	(786)	196
Cash flow from operations	595	811	505	3,005
Capital expenditure	(4,437)	(3,250)	(2,450)	(2,450)
Change in investments	1,876	(500)	(1,000)	(1,000)
Other investing cash flow	403	-	-	-
Cash flow from investing	(2,159)	(3,750)	(3,450)	(3,450)
Issue of equity	86	-	-	-
Issue/repay debt	2,155	3,250	2,450	2,450
Dividends paid	(167)	(120)	(120)	(120)
Other financing cash flow	1,281	636	(131)	(279)
Change in cash & cash eq	1,790	827	(746)	1,606
Closing cash & cash eq	1,910	2,737	1,991	3,597

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	12.5	11.3	11.3	11.3
ROIC (%)	2.5	2.5	3.9	8.6
Invested capital (Rs mn)	19,493	23,593	27,592	30,484
EVA (Rs mn)	(1,933)	(2,089)	(2,059)	(825)
EVA spread (%)	(9.9)	(8.9)	(7.5)	(2.7)

Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	1,910	2,737	1,991	3,597
Accounts receivable	351	421	561	701
Inventories	3	3	560	135
Other current assets	4,077	4,277	4,477	4,677
Investments	4,525	5,025	6,025	7,025
Gross fixed assets	4,881	5,851	12,534	19,045
Net fixed assets	4,419	5,231	11,675	17,824
CWIP	9,004	11,284	7,052	2,991
Intangible assets	-	-	-	-
Deferred tax assets, net	11	11	11	11
Other assets	-	-	-	-
Total assets	24,300	28,989	32,352	36,961
Accounts payable	439	539	549	559
Other current liabilities	915	1,076	1,177	1,277
Provisions	228	240	245	245
Debt funds	5,452	8,702	11,152	13,602
Other liabilities	2,119	3,150	3,500	3,800
Equity capital	290	290	290	290
Reserves & surplus	14,858	14,992	15,440	17,188
Shareholder's funds	15,147	15,282	15,729	17,478
Total liabilities	24,300	28,989	32,352	36,961
BVPS (Rs)	104.6	105.5	108.6	120.7

Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	60.4	67.3	73.9	78.0
EBIT margin	51.0	55.1	63.7	71.2
Net profit margin	77.0	49.5	33.8	41.4
ROE	5.5	4.2	5.1	13.2
ROCE	4.4	3.2	3.5	8.3
Working Capital & Liquidity ratios				
Receivables (days)	104	109	77	44
Inventory (days)	179	172	865	224
Payables (days)	19,308	26,670	1,672	357
Current ratio (x)	4.7	4.6	4.4	5.0
Quick ratio (x)	1.7	0.3	0.3	0.4
Turnover & Leverage ratios (x)				
Gross asset turnover	0.2	0.2	0.3	0.3
Total asset turnover	0.0	0.0	0.1	0.2
Interest coverage ratio	9.3	8.2	8.9	11.0
Adjusted debt/equity	0.3	0.6	0.7	0.8
Valuation ratios (x)				
EV/Sales	33.4	25.8	14.3	6.3
EV/EBITDA	55.3	38.3	19.3	8.1
P/E	37.5	44.9	36.4	13.1
P/BV	1.8	1.8	1.7	1.6



Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	221	214	248	264	271
YoY growth (%)	9.4	(85.6)	19.7	12.6	36.7
QoQ growth (%)	(5.7)	(3.0)	15.7	6.5	14.4
EBITDA (Rs mn)	134	106	165	155	124
EBITDA margin (%)	60.7	49.6	66.5	58.8	41.2
Adj net income (Rs mn)	148	141	153	175	102
YoY growth (%)	(14.1)	(89.5)	39.0	(54.6)	(30.9)
QoQ growth (%)	(61.9)	(4.7)	9.1	14.4	(41.9)

DuPont analysis

(%)	FY08	FY09	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	69.0	80.2	74.6	50.4	59.7
Interest burden (PBT/EBIT)	146.1	188.2	120.5	105.2	97.5
EBIT margin (EBIT/Revenues)	51.7	51.0	55.1	63.7	71.2
Asset turnover (Revenues/Avg TA)	6.9	4.6	4.9	7.6	15.2
Leverage (Avg TA/Avg equity)	174.5	154.6	175.1	197.8	208.7
Return on equity	6.2	5.5	4.2	5.1	13.2

Company profile

The Phoenix Mills (PML) is a mid cap real estate company with a focus on the retail, commercial and entertainment segments in tier I and tier II cities. PML's flagship project, High Street Phoenix, in Lower Parel, Mumbai was the first consumption centre developed by the Phoenix Group in India. Developed on 1.5msf of space, the complex houses retail, entertainment, commercial and residential complexes and is being steadily expanded in phases. The company currently has a development portfolio of over 43.5msf in Mumbai, Bengaluru, Chennai, Pune and Kolkata.

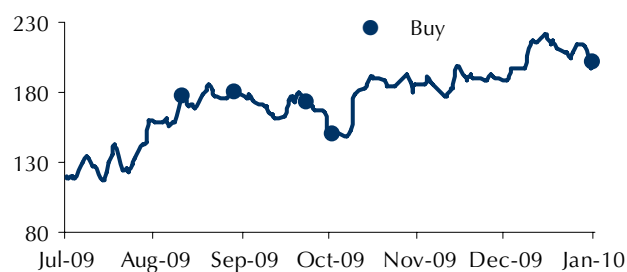
Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	65.9	65.9	65.9
FIs	23.5	21.9	19.4
Banks & FIs	4.6	5.2	7.3
Public	6.0	7.0	7.4

Recommendation history

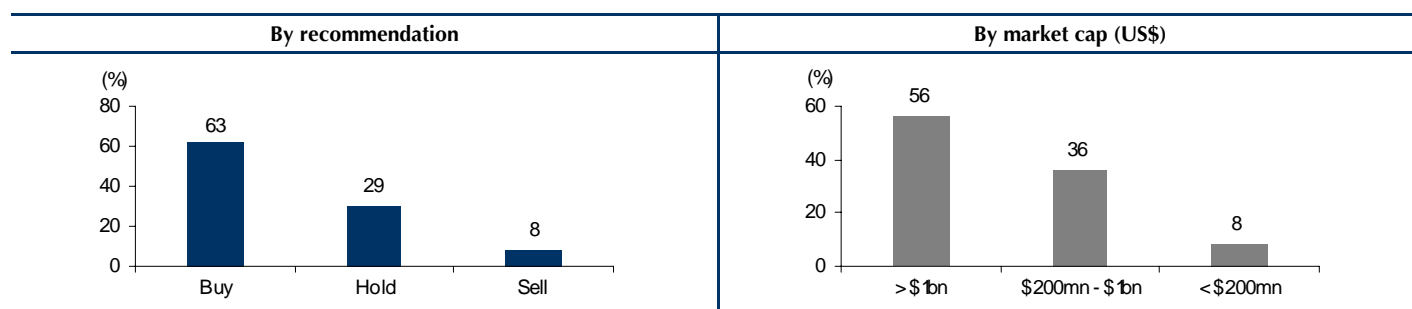
Date	Event	Reco price	Tgt price	Reco
8-Sep-09	Initiating Coverage	177	223	Buy
25-Sep-09	Company Update	181	223	Buy
21-Oct-09	Flash Note	173	223	Buy
30-Oct-09	Results Review	150	223	Buy
29-Jan-10	Results Review	198	223	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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