

CMP : Rs.258

Reco : BUY

Target : Rs.288

STOCK INFO

BSE	503100
NSE	PHOENIXLTD
Bloomberg	PHNX IN
Reuters	PHOE.BO
Sector	Realty
Face Value (Rs)	2
Equity Capital (Rs mn)	290
Mkt Cap (Rs mn)	37,283
52w H/L (Rs)	274/ 155
3m Avg Daily Volume (BSE + NSE)	135,747

SHAREHOLDING PATTERN

	%
(as on 31st Dec. 2012)	
Promoters	65.9
FII's	21.2
DII's	6.4
Public & Others	6.5

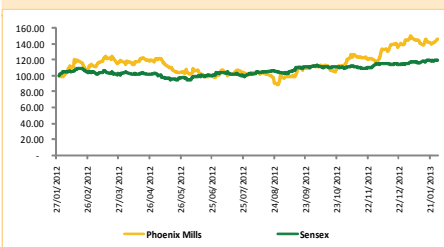
Source: BSE

STOCK PERFORMANCE (%) 1m 3m 12m

PHOENIX MILLS	1	29	46
SENSEX	3	8	19

Source: Capitaline, IndiaNivesh Research

PHOENIX MILLS v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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Phoenix Mills Q3FY13 Results Update

Standalone Financials Review:

- Top-line of standalone entity (i.e. the High Street Phoenix) reflects (1) ~18.0% increase in average trading density (from Rs 1,850 psf. pm in Q3FY12 to Rs 2,185 psf. pm in Q3FY13), (2) increase in HSP rental from Rs 177 psf. pm in Q3FY12 to Rs 204 psf. pm, (3) increase in mall consumption from Rs 2.6 bn in Q2FY13 to Rs 3.1 bn in Q3FY13.
- The reported numbers were very much in-line with our estimates. Top-line grew by 20.1% on a year-over-year basis to Rs 693.4 mn. EBITDA margins of the company improved from 64.7% in Q2FY13 to 68.3% in Q3FY13. Improvement in the EBITDA margins got translated to better net margins too (improved from 46.6% a year ago to 49.2% in Q3FY13).

Standalone Financials

(Rs in mn.)	Q3FY13	Q2FY13	Q3FY12	q-o-q ch.	y-o-y ch.
Inc. from Operations	693.4	664.5	577.2	4.3%	20.1%
Electricity Expenses	102.2	93.1	72.3	9.8%	41.3%
Employee cost	18.9	22.1	19.5	-14.6%	-2.8%
Other expenses	98.4	111.0	112.2	-11.3%	-12.3%
Total Operating Exp.	219.5	226.2	204.0	-3.0%	7.6%
EBITDA	473.9	438.3	373.3	8.1%	27.0%
EBITDA Margin (%)	68.3%	66.0%	64.7%		
Depreciation	68.7	68.7	73.7	0.0%	-6.8%
Other Income	125.9	155.7	112.8	-19.2%	11.6%
Profit before Int. & tax	531.0	525.3	412.3	1.1%	28.8%
Finance Costs	69.9	71.8	57.0	-2.6%	22.6%
Profit before tax	461.1	453.5	355.4	1.7%	29.8%
Tax Expenses	119.7	123.2	86.3	-2.9%	38.7%
Net profit after tax	341.4	330.3	269.0	3.4%	26.9%
Tax as % of PBT	26.0%	27.2%	24.3%		
PAT Margins (%)	49.2%	49.7%	46.6%		
EPS- Diluted	2.36	2.28	1.86		

Following are the **Key updates** takeaways from the Q3FY13 **management concall**:

- Management has maintained that the current lease rental rates at HSP & Palladium are at Rs 350-400 / sq. ft. (with exception of some of the anchor tenants). Combinedly at HSP & Palladium ~0.1 mn sq.ft. of area of leases would come-up for renewals in FY14E and slightly more that in FY15E.
- Management expects Shangri-la to break-even at the PAT level from FY15E onwards. The recent soft launch of the hotel has been at an Average Room Rate (ARR) of Rs 15,000. In FY15E, non-room revenues would contribute ~55% of total Shangri-La revenues, with remaining from room revenues.
- Currently, Simplex Infrastructure is carrying out the residential real estate project at Bengaluru (W). A total of Rs 1 bn is targeted to be spent towards TDR purchases (of this some has already been bought).
- PML has entered in to a binding agreement with Realty Fund & Horizon Ventures Funding to acquire 26% stake in Phoenix MarketCity Bengaluru for

Phoenix Mills (contd...)

Rs 680 mn. Management confirmed that the acquisition would be funded through a combination of internal accruals and debt.

- Following table highlights details of the sequential increase in incremental funding of the key projects, which increased by Rs 135 mn.

Inc. funding req. (Rs in mn)

Project Name	Q3FY13	Q2FY13	Inc. funding
HSP Mumbai	2,211	2,351	(140)
MarketCity Pune	4,645	4,566	79
MarketCity Bengaluru	3,406	3,415	(9)
MarketCity Kurla	6,864	6,676	188
MarketCity Chennai	2,889	2,873	16
Shangri-La	6,098	6,098	0
Swing			135

Source: Company Filings

Following are some of the changes we made to our project specific assumptions to arrive at revised FY14E based NAV of Rs 288.

- Even though management expects ~0.1 mn sq.ft. of lease renewals in FY14E and FY15E, each, we have not factored the same in our model. For HSP we have modeled ~4.6% revenue CAGR during FY13-15E.
- Given the favorable outlook towards retail focused developers, when coupled with better business visibility seen across MarketCity Pune, Bangalore, Kurla, Shangri-La & HSP (thereby eliminating project risks), we have reduced the discount rate from 13% to 12% levels.
- We have seen encouraging lease occupancy trends across the MarketCity Pune, Bengaluru & Mumbai projects in the last 3 quarters. Accordingly, we revised our FY13E (from 58.0% to ~70% levels) & subsequent year's occupancy rates assumption for Marketcity Pune & Bengaluru. Further, we have conservatively assumed 70% occupancy rates for Mumbai MarketCity project (vs. 64.0% earlier) and subsequently revised the occupancy rate assumptions.
- Given the impressive performance of PML in the last 2-3 quarters, coupled with stake purchase in MarketCity Bengaluru, we have revised upwards our top-line & bottom-line estimates for FY13E & FY14E. We now expect the top-line to grow by 44.3% CAGR during FY12-14E, well supported by higher lease & occupancy rates. Surge in top-line has flown down to bottom-line levels too, as we now expect the bottom-line to grow by 37.4% CAGR during FY12-14E.

Change in assumptions

Particulars	Old		New	
	FY13E	FY14E	FY13E	FY14E
Revenues	5,062.5	6,903.0	5,664.1	7,635.8
EBITDA	2,824.9	3,817.4	3,160.6	4,222.6
PAT	1,243.9	1,666.3	1,502.3	1,994.2

Source: IndiaNivesh Estimates

Phoenix Mills (contd...)**Outlook & Valuations**

We expect higher lease rates and occupancy rates to support the growth across projects. With most of the projects having commissioned and likely to attain peak in next few quarters, we expect the strain on balance sheet to ease from FY15E onwards.

Particulars	NAV (Rs mn)	NAV/Share
High Street Phoenix (incl. Palladium)	24,112.4	166.5
Marketcity Pune	1,990.4	13.7
Marketcity Mumbai	1,631.3	11.3
Marketcity Bangalore	2,702.3	18.7
Marketcity Chennai	1,587.7	11.0
Shangri-La	1,177.3	8.1
Phoenix Hospitality Pvt. Ltd (accounts to 4 hotels in Pune, Chennai, Mumbai, Agra)	617.0	4.3
Residential segment	3,787.1	26.1
BARE	952.0	6.6
EWDPL	1,710.0	11.8
Gross Value	40,267.5	278.0
Cash and cash equivalents	1,461.8	10.1
Net Value	41,729	288

Source: IndiaNivesh Estimates

At CMP of Rs 258, PML is trading at FY13E & FY14E, EV/EBITDA multiple of 16.6x and 13.4x, respectively. After making all required adjustments (discussed above), we arrived at FY14E NAV of Rs 288 (indicating 11.6% upside to the current market price). We maintain our BUY rating on the stock.

Phoenix Mills (contd...)

Consolidated Financial statements

Income statement

Y E March (Rs m)	2010A	2011A	2012A	2013E	2014E
Net sales	1,230.2	2,101.7	3,666.1	5,664.1	7,635.8
Growth %	23.5%	70.8%	74.4%	54.5%	34.8%
Construction materials exp.	11.5	50.7	365.7	679.7	939.2
Employee Expenses	66.9	140.9	206.2	300.2	404.7
SG&A Expenses	376.8	504.6	980.2	1,523.7	2,069.3
Operating & Other Expenses	455.3	696.1	1,552.1	2,503.5	3,413.2
EBITDA	775.0	1,405.6	2,114.1	3,160.6	4,222.6
Growth %	28.8%	81.4%	50.4%	49.5%	33.6%
EBITDA Margin %	63.0%	66.9%	57.7%	55.8%	55.3%
Depreciation & Amortisation	172.3	314.1	563.3	807.6	1,045.4
Other Income	242.8	286.9	446.2	350.0	350.0
EBIT	845.5	1,378.4	1,997.0	2,703.0	3,527.2
EBIT Margin %	68.7%	65.6%	54.5%	47.7%	46.2%
Interest	86.0	227.6	943.9	1,133.1	1,357.4
PBT	759.5	1,150.7	1,053.1	1,569.8	2,169.8
Tax	147.1	320.8	189.2	282.6	390.6
Effective tax rate %	19.4%	27.9%	18.0%	18.0%	18.0%
Minority Interest	(7.4)	(12.0)	(192.3)	(215.0)	(215.0)
PAT	619.8	841.9	1,056.3	1,502.3	1,994.2
Growth%	-19.3%	35.8%	25.5%	42.2%	32.7%
PAT margin %	50.4%	40.1%	28.8%	26.5%	26.1%

Source: IndiaNivesh Research

Cash Flow

Y E March (Rs m)	2010A	2011A	2012A	2013E	2014E
PBT	759.5	1,150.7	1,053.1	1,569.8	2,169.8
Depreciation & Amortisation	172.3	314.1	563.3	808.6	1,046.4
Other adj. prior to WC changes	(96.7)	97.1	586.6	783.1	1,007.4
Changes in working capital	543.6	(325.2)	2,056.6	1,670.1	1,610.9
Tax	200.2	300.2	437.7	282.6	390.6
Cash flow from operations	1,178.5	936.5	3,822.0	4,549.1	5,443.9
Capital expenditure	(2,695.5)	(2,907.2)	(6,640.3)	(6,530.0)	(4,695.0)
Free Cash Flow	3,874.1	3,843.7	10,462.3	11,079.1	10,138.9
Inc./Dec. in Investments	(456.5)	485.5	(1,940.9)	2,043.4	(2,907.5)
Cash flow from investments	(3,152.0)	(2,421.7)	(8,581.2)	(4,486.6)	(7,602.5)
Equity capital raised	33.4	0.0	1,288.0	0.0	0.0
Inc./ (Dec.) In long term & Other Borrowings	1,467.0	2,973.1	5,282.4	3,157.5	2,445.0
Dividend & Interest paid (incl tax)	(766.2)	(1,137.7)	(1,725.1)	(1,507.8)	(1,743.5)
Cash flow from Financing	734.3	1,835.4	4,845.3	1,649.7	701.5
Net change in cash	(1,239.2)	350.2	86.1	1,712.2	(1,457.0)
Cash at the beginning of the year	1,909.8	670.6	1,020.9	1,206.6	2,918.8
Transfers from acq. of subsidiary	0.0	0.1	99.6	0.0	0.0
Cash at the end of the year	670.6	1,020.9	1,206.6	2,918.8	1,461.8

Source: IndiaNivesh Research

Balance sheet

Y E March (Rs m)	2010A	2011A	2012A	2013E	2014E
Share Capital	289.7	289.7	289.7	289.7	289.7
Reserves & Surplus	15,758.8	16,410.3	16,815.6	18,924.8	23,208.5
Net Worth	16,048.4	16,700.0	17,105.3	19,214.5	23,498.2
Total Loan Funds	6,607.8	9,564.1	14,963.5	18,121.0	20,566.0
Minority Interest	2,190.4	1,965.2	3,566.4	1,900.0	2,687.5
Total Liabilities	24,846.7	28,229.4	35,635.3	39,235.5	46,751.7
Gross Block	7,954.6	8,879.8	13,383.2	19,913.2	24,608.2
Accumulated Depreciation	633.4	947.7	1,502.7	2,311.3	3,357.8
Net Block	7,321.2	7,932.1	11,880.5	17,601.9	21,250.5
Cap. WIP	9,137.0	10,997.3	13,591.0	12,744.3	19,089.4
Investments	5,600.8	4,786.6	4,869.3	3,709.6	4,300.0
Deferred Tax Assets	24.1	8.9	247.0	247.0	247.0
Current Assets	4,732.5	7,651.1	10,542.1	13,586.3	13,912.4
Inventories	3.1	1,181.6	2,516.3	3,933.4	4,984.5
Sundry Debtors	431.2	961.4	617.6	755.2	890.8
Cash & Bank Balance	670.6	1,021.4	1,206.5	2,918.8	1,461.8
Loans & advances	3,627.7	4,387.6	6,044.8	5,978.8	6,575.2
Current Liabilities & Provisions	1,968.8	3,146.7	5,494.6	8,653.5	12,047.6
Sundry Creditors	1,724.4	2,787.0	5,081.5	8,024.2	11,241.6
Provisions	244.4	359.7	413.1	629.3	806.0
Net Current Assets	2,763.7	4,504.4	5,047.5	4,932.7	1,864.8
Total Assets	24,846.7	28,229.4	35,635.3	39,235.5	46,751.7

Source: IndiaNivesh Research

Key ratios

Y E March	2010A	2011A	2012A	2013E	2014E
Adj. EPS (Rs)	4.3	5.8	7.3	10.4	13.8
Cash EPS (Rs)	5.5	8.0	11.2	15.9	21.0
DPS (Rs)	1.2	1.8	2.0	2.2	2.3
BVPS (Rs)	110.8	115.3	118.1	132.7	162.2
ROCE (%)	2.7%	3.2%	3.3%	4.0%	4.5%
ROE (%)	3.9%	5.0%	6.2%	7.8%	8.5%
Inventories days	1	202	247	250	235
Sundry debtors days	126	165	61	48	42
Trade payables days	505	477	499	510	530
PER (x)	60.3x	44.4x	35.4x	24.9x	18.7x
P/BV (x)	2.3x	2.2x	2.2x	1.9x	1.6x
EV/EBITDA (x)	55.9x	32.7x	24.2x	16.6x	13.4x
Dividend Yield %	0.5%	0.7%	0.8%	0.8%	0.9%
M-Cap/Sales (x)	30.4x	17.8x	10.2x	6.6x	4.9x
Net Debt/Equity (x)	0.4x	0.5x	0.8x	0.8x	0.8x
Net Debt/EBITDA (x)	7.7x	6.1x	6.5x	4.8x	4.5x

Source: IndiaNivesh Research



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