

PHOENIX MILLS

REAL ESTATE

16 NOV 2016

Quarterly Update

BUY

Target Price: Rs 388

Rental renewals key to drive growth

Collective **rental income at its malls grew by 13% YoY** in Q2 with **~4% YoY growth in consumption**. Management expects increase in occupancy levels across its malls (as significant area was under fit-outs in Q2) and has guided for double-digit consumption growth Q3 onwards (vs. 4-7% in last 3 quarters).

We **remain cautious on consumption growth** amid impact of ban on high denomination currency on discretionary spend and increasing competition from the e-commerce industry. **Rental growth in the mid-term will be driven by rental renewals** (of 1.9 msf across its malls over FY17-18, which is ~40% of its leasable area) at higher Minimum Guarantees (MG) and better revenue share terms. Further, PML's **development business can generate net cash flow of Rs 25-30 bn over next 5-6 years**, which could be used to fund growth/ deleveraging.

CMP : Rs 309
Potential Upside : 26%

MARKET DATA

No. of Shares : 153 mn
Free Float : 37%
Market Cap : Rs 47 bn
52-week High / Low : Rs 445 / Rs 238
Avg. Daily vol. (6mth) : 58,302 shares
Bloomberg Code : PHNX IB Equity
Promoters Holding : 63%
FII / DII : 30% / 3%

Q2 highlights

- ♦ **High Street Phoenix (HSP):** Consumption growth stood low at ~7% YoY, driven by decline in occupancy level to 94% (from 96% in Q2FY16). Average rentals at HSP increased ~6% YoY to Rs 305 psf p.m.
- ♦ **Rental income growth at Market City malls:** Pune (up 11.4% YoY), Bangalore (up 9.1% YoY), Chennai (up 8.3% YoY) and Kurla (down 6.9% YoY)
- ♦ **Development business:** No significant incremental sales on account of no new launch in Q2. Consequently, collections too declined to Rs 0.7 bn (vs. Rs 1.1 bn in Q1). Revenue recognition from development portfolio stood at Rs 1.23 bn (up ~80% YoY) driven by project Kessaku, which crossed revenue recognition threshold in Q2FY17 (contributed ~75% to development revenue)
- ♦ Rebranding of hotel to St. Regis is yielding results with rack rates increasing 14% YoY to Rs 9,671/ night in Q2 along with increase in the number of operational rooms resulting in ~50% YoY growth in room revenue

Financial summary (Consolidated)

Y/E March	FY15	FY16	FY17E	FY18E
Revenue (Rs mn)	16,533	17,786	18,445	20,865
Adj PAT (Rs mn)	1,292	1,203	1,757	1,952
EPS (Rs)	8.9	7.9	11.5	12.8
Change YOY (%)	7.7	(11.9)	46.1	11.1
Net Debt (Rs mn)	32,642	36,820	33,923	31,116
Networth (Rs mn)	16,737	18,686	20,092	21,654
RoE (%)	7.6	6.8	9.1	9.4
RoCE (%)	10.4	10.5	10.3	11.1
P/E (x)	34.6	39.2	26.9	24.2
P/B (x)	2.7	2.5	2.3	2.2

Source: Company, Axis Capital

* Entertainment World Developers Pvt Ltd

Key drivers - Rental income

(Rs mn)	Q2'17	Q2'16	% YoY	Q1'17	% QoQ
HSP	702	634	11%	598	17%
Pune	284	255	11%	263	8%
Bengaluru	263	241	9%	252	4%
Kurla	230	247	-7%	230	0%
Chennai	326	301	8%	315	3%

Price performance

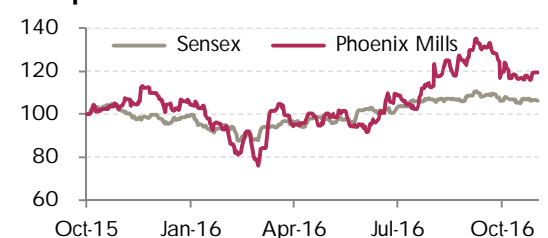


Exhibit 1: Results update – (Consolidated)

(Rs. mn)	Quarter ended					12 months ended		
	Sep-16	Sep-15	% Chg	Jun-16	% Chg	FY17E	FY16	% Chg
Net Sales	4,911	4,223	16.3	4,424	11.0	18,445	17,786	3.7
EBIDTA	2,312	1,859	24.3	2,023	14.3	8,299	7,900	5.0
Other income	83	103	(19.8)	73	13.1	300	312	(3.9)
PBIDT	2,395	1,963	22.0	2,097	14.2	8,599	8,212	4.7
Depreciation	477	416	14.7	469	1.6	2,064	1,773	16.4
Interest	1,105	1,049	5.3	1,056	4.7	3,992	4,305	(7.3)
PBT	813	498	63.3	572	42.2	2,544	2,134	19.2
Tax	359	198	81.1	267	34.4	865	746	16.0
PAT	543	246	121.0	431	26.1	1,679	1,389	20.9
Minority Interest	(90)	59	-	(124)	(28)	-	203	(100.0)
Share of profit/ (loss) in assoc.	(1)	5	(111)	2	(134)	78	17	365.9
Adj. PAT	543	246	121.0	431	26.1	1,757	1,203	46.1
Exceptional items	-	-	-	-	-	-	(387)	(100.0)
Rep. PAT	543	246	121.0	431	26.1	1,757	815	115.5
No. of shares (mn)	153	145	-	145	-	153	153	-
EBIDTA margin (%)	47.1	44.0	-	45.7	-	45.0	44.4	-
Adj. EPS - annualized (Rs.)	14.2	6.8	109.1	11.9	19.4	45.9	31.4	46.1

Source: Company, Axis Capital Note: Above financials are as per Ind AS. Q4FY16 and FY16 financials are as per Indian GAAP

Other highlights

- ♦ Towers 1,2 and 3 of One Bangalore West project have received Occupation Certificate (OC), with OC for towers 4 and 5 expected soon
- ♦ **Operating margin improved** marginally to 47% in Q2 (vs 45.7% in Q1)
- ♦ **Reconfiguration of Pune residential project (Fountainhead):** The company booked cancellations in these projects in Q2. Management acknowledged that the premium product that it had earlier planned has not met with good response and hence it is in process of reconfiguring this project
- ♦ PML is **consciously delaying launch of new projects** in Bangalore (East) and Chennai in wake of slowdown in demand in these micro-markets. The company is **focusing on monetizing its unsold inventory** in its launched projects. The company is contemplating on changing end-use for these projects
- ♦ Gross debt remained steady QoQ at Rs 37.9 bn. Of this, ~94% continues to be LRD or equivalent (CMBS and hotel debt). While cost of debt remained steady at 11%, the company expects it to come down in the coming months due to refinance of debt at certain assets. Average cost of debt remained steady at 11%
- ♦ The company has entered into Share Purchase Agreement (SPA) to purchase stakes in six subsidiaries. The company expects to complete these transactions between Dec '16 and Oct '17. The share purchase program will be funded through internal accruals

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	16,533	17,786	18,445	20,865
Other operating income	-	-	-	-
Total operating income	16,533	17,786	18,445	20,865
Cost of goods sold	(2,813)	(2,847)	(2,454)	(2,762)
Gross profit	13,720	14,939	15,991	18,103
Gross margin (%)	83.0	84.0	86.7	86.8
Total operating expenses	(6,100)	(7,038)	(7,691)	(8,845)
EBITDA	7,620	7,900	8,299	9,258
EBITDA margin (%)	46.1	44.4	45.0	44.4
Depreciation	(1,681)	(1,773)	(2,064)	(2,673)
EBIT	5,939	6,127	6,235	6,585
Net interest	(3,956)	(4,305)	(3,992)	(3,963)
Other income	312	312	300	300
Profit before tax	2,295	2,134	2,544	2,922
Total taxation	(493)	(746)	(865)	(993)
Tax rate (%)	21.5	34.9	34.0	34.0
Profit after tax	1,802	1,389	1,679	1,928
Minorities	(553)	(203)	-	-
Profit/ Loss associate co(s)	43	17	78	24
Adjusted net profit	1,292	1,203	1,757	1,952
Adj. PAT margin (%)	7.8	6.8	9.5	9.4
Net non-recurring items	(938)	(387)	-	-
Reported net profit	354	815	1,757	1,952

Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	290	306	306	306
Reserves & surplus	16,447	18,380	19,786	21,348
Net worth	16,737	18,686	20,092	21,654
Borrowing	33,562	38,776	35,258	32,708
Other non-current liabilities	1,956	2,453	2,453	2,453
Total liabilities	65,366	71,903	70,595	70,517
Gross fixed assets	46,368	50,334	50,334	50,334
Less: Depreciation	(5,044)	(6,817)	(8,881)	(11,554)
Net fixed assets	41,324	43,517	41,453	38,780
Add: Capital WIP	2,117	1,949	1,949	1,949
Total fixed assets	43,441	45,466	43,401	40,729
Total Investment	2,525	2,025	2,025	2,025
Inventory	11,783	13,240	13,902	15,292
Debtors	2,192	3,201	3,361	3,697
Cash & bank	920	1,956	1,334	1,591
Loans & advances	4,323	5,559	6,114	6,726
Current liabilities	6,898	7,477	8,282	9,192
Net current assets	12,501	16,675	16,626	18,311
Other non-current assets	-	260	260	260
Total assets	65,366	71,903	70,595	70,517

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	2,295	2,134	2,544	2,922
Depreciation & Amortisation	(1,681)	(1,773)	(2,064)	(2,673)
Chg in working capital	329	(3,138)	(573)	(1,428)
Cash flow from operations	6,408	3,568	6,862	6,836
Capital expenditure	(1,074)	(4,058)	-	-
Cash flow from investing	1,845	(3,245)	300	300
Equity raised/ (repaid)	(596)	1,375	-	-
Debt raised/ (repaid)	(500)	5,214	(3,518)	(2,550)
Dividend paid	(258)	(241)	(351)	(390)
Cash flow from financing	(5,311)	2,043	(7,861)	(6,903)
Net chg in cash	2,943	2,366	(700)	233

Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
OPERATIONAL				
FDEPS (Rs)	8.9	7.9	11.5	12.8
CEPS (Rs)	14.0	16.9	25.0	30.2
DPS (Rs)	1.8	1.6	2.3	2.6
Dividend payout ratio (%)	73.0	29.5	20.0	20.0
GROWTH				
Net sales (%)	14.1	7.6	3.7	13.1
EBITDA (%)	12.3	3.7	5.0	11.5
Adj net profit (%)	7.7	(6.9)	46.1	11.1
FDEPS (%)	7.7	(11.9)	46.1	11.1
PERFORMANCE				
RoE (%)	7.6	6.8	9.1	9.4
RoCE (%)	10.4	10.5	10.3	11.1
EFFICIENCY				
Asset turnover (x)	0.3	0.3	0.3	0.4
Sales/ total assets (x)	0.2	0.3	0.3	0.3
Working capital/ sales (x)	0.7	0.7	0.8	0.8
Receivable days	48.4	65.7	66.5	64.7
Inventory days	482.5	488.9	500.1	480.9
Payable days	43.0	44.9	52.5	55.1
FINANCIAL STABILITY				
Total debt/ equity (x)	1.4	1.7	1.5	1.3
Net debt/ equity (x)	1.4	1.6	1.4	1.2
Current ratio (x)	2.8	3.2	3.0	3.0
Interest cover (x)	1.5	1.4	1.6	1.7
VALUATION				
PE (x)	34.6	39.2	26.9	24.2
EV/ EBITDA (x)	10.1	10.6	9.8	8.5
EV/ Net sales (x)	4.7	4.7	4.4	3.8
PB (x)	2.7	2.5	2.3	2.2
Dividend yield (%)	0.6	0.5	0.7	0.8
Free cash flow yield (%)	11.9	(1.0)	14.5	14.5

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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