

PHOENIX MILLS

REAL ESTATE

17 MAY 2017

Quarterly Update

BUY

Target Price: Rs 528

Consumption picks up across malls

Rental growth was steady at 11% YoY led by consumption growth of 8% YoY in Q4. The management highlighted strong consumption growth at Phoenix Market City malls in Pune (19%), Bangalore (18%) and Kurla (24%), which is expected to continue into FY18. Development portfolio remained subdued on account of no new launches, with pre-sales of 0.3 bn from ongoing projects in Q4FY17 (vs. 0.8 bn in Q4FY16).

Outlook: Visibility on rental growth remains strong driven by rental renewals (~1.7 msf of its leasable area up for renewal over FY18-20) at significantly higher Minimum Guarantees (MG) and better revenue share terms. Further, the **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 412
Potential Upside : 28%

MARKET DATA

No. of Shares : 153mn
Free Float : 37%
Market Cap : Rs 64bn
52-week High / Low : Rs 445 / Rs 285
Avg. Daily vol. (6mth) : 98,158 shares
Bloomberg Code : PHNX IB Equity
Promoters Holding : 63%
FII / DII : 30% / 3%

Key highlights

- ♦ **High Street Phoenix (HSP):** Consumption growth remained muted at 5% YoY (same in Q3), but rental income increased 8% YoY to Rs 711 mn (vs. ~11% YoY in Q3) driven by 16% YoY increase in average rentals to Rs 313 psf p.m (vs. Rs 295 psf p.m in Q4FY16). Occupancy level remained largely flat at 92% (vs. 93% in Q4FY16)
- ♦ **Rental income growth at Market City malls in Q4:** Pune (up 24% YoY), Bangalore (up 15% YoY), Chennai (up 9% YoY) and Kurla (up 5% YoY)
- ♦ **Hotel St. Regis:** Room revenue increased 9% YoY in Q4 (26% in FY17) driven by 10% increase in ARR at Rs 11,798/night paired with increase in occupancy levels at 80% (vs. 75% in Q4FY16)
- ♦ **Gross debt remained largely flat at Rs 39.5 bn** despite Rs 500 mn increase in debt at its SPV Graceworks Realty and Leisure (Phoenix Paragon Plaza). **Debt remained steady at all other SPVs.** Cost of debt declined by 31 bps to 10.16% (vs. 10.47% as on Dec'16; 11% as on Mar'16), and the company continues to expect it to moderate further over the next few quarters

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Revenue (Rs mn)	17,795	18,246	19,195	20,904
Adj PAT (Rs mn)	1,224	1,910	2,023	2,594
EPS (Rs)	8.0	12.5	13.2	17.0
Change YOY (%)	(10.4)	56.1	6.0	28.2
Net Debt (Rs mn)	34,602	32,730	29,353	24,953
Networth (Rs mn)	20,194	21,871	23,490	25,566
RoE (%)	6.6	9.1	8.9	10.6
RoCE (%)	10.6	11.6	11.2	11.7
P/E (x)	51.9	33.3	31.4	24.5
P/B (x)	3.1	2.9	2.7	2.5

Source: Company, Axis Capital

Key drivers - Rental income

(Rs mn)	Q4'17	Q4'16	% YoY	Q3'17	% QoQ
HSP	771	661	8%	752	-5%
Pune	330	266	24%	324	2%
Bengaluru	283	247	15%	292	-3%
Kurla	235	223	5%	232	1%
Chennai	339	310	9%	306	11%

Price performance

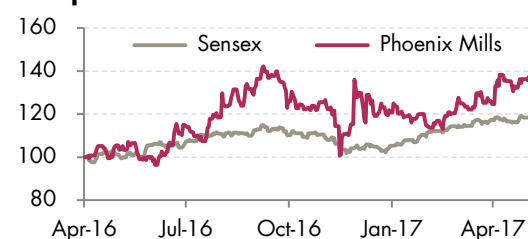


Exhibit 1: Results update – (Consolidated)

(Rs. mn)	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Net sales	4,544	4,660	(2.5)	4,367	4.1	19,195	18,246	5.2
EBIDTA	1,997	2,049	(2.6)	2,137	(6.6)	9,309	8,469	9.9
Other income	203	78	162.1	112	80.9	350	472	(25.8)
PBIDT	2,200	2,126	3.4	2,250	(2.2)	9,659	8,941	8.0
Depreciation	518	477	8.6	489	5.8	2,673	1,953	36.9
Interest	992	1,201	(17.4)	1,077	(7.8)	3,957	4,230	(6.5)
PBT	690	449	53.8	684	0.9	3,029	2,758	9.8
Tax	178	233	(23.8)	54	228.4	1,030	858	20.1
PAT	511	220	131.9	445	14.6	1,999	1,900	5.2
Minority Interest	0	0	-	191	-	0	0	-
Share of profit/ (loss) in assoc.	(2)	5	-	7	-	24	10	153.2
Adj. PAT	511	220	131.9	445	14.6	2,023	1,910	6.0
Exceptional items	0	(321)	-	0	-	0	0	-
Rep. PAT	511	(101)	(607.4)	445	14.6	2,023	1,910	6.0
No. of shares (mn)	153	145	-	145	-	153	153	-
EBIDTA margin (%)	43.9	44.0	-	48.9	-	48.5	46.4	-
Adj. EPS - annualized (Rs.)	13.3	6.1	119.5	12.3	8.5	52.9	49.9	6.0

Source: Company, Axis Capital Note: Above financials are as per Ind AS.

Other highlights

- ♦ Revenue recognition from **development portfolio** remained low at Rs. 0.3 bn (vs. 0.7 bn in Q4FY16, down 58% YoY) on lower presales. Consequently, overall revenue declined 3%YoY in Q4. While operating margin remained flat YoY at 44% in Q4, other income stood higher (162% YoY) on account of Ind-AS adjustments which coupled with lower tax led to PAT of Rs 511 mn (132% YoY). Margin was also lower on account of property tax payments due in Q4 across retail assets
- ♦ **Update on JV with CPPIB:** The platform has received the first tranche of investment of Rs 7.24 bn for the initial 30% stake. The platform is currently evaluating assets including a mall in Lucknow with potential leasable area of ~750,000 sf
- ♦ **Chennai Palladium:** Expects to receive Occupation Certificate (OC) for the mall soon and aims to become operational by Q2FY18, by which point 60% of leasable area will be fully operational
- ♦ The company aims to increase its holdings further in Market City malls to between 50-100% during H1FY18, with additional payments of Rs 2.5 bn pending during the period. Payments will see PML's stake increase to 100% in Pune (currently 86.6%), 95% in Kurla (currently 83.6%) and 50% in Chennai (currently 48.2%)
- ♦ The company has received OC for towers 1 through 5 at **One Bangalore West** and will begin the handover to customers shortly
- ♦ PML's **effective stake in St. Regis** stands at 73% (vs. 58% in Q3FY17). While the asset is still negative at PAT level, the management expects EBITDA growth of ~20-25% to continue over the next few years (26% in FY17)

Financial summary (Consolidated)

Profit & loss (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	17,795	18,246	19,195	20,904
Other operating income	-	-	-	-
Total operating income	17,795	18,246	19,195	20,904
Cost of goods sold	(2,848)	(2,466)	(2,303)	(2,362)
Gross profit	14,947	15,780	16,892	18,542
<i>Gross margin (%)</i>	<i>84.0</i>	<i>86.5</i>	<i>88.0</i>	<i>88.7</i>
Total operating expenses	(7,079)	(7,310)	(7,583)	(8,539)
EBITDA	7,869	8,469	9,309	10,003
<i>EBITDA margin (%)</i>	<i>44.2</i>	<i>46.4</i>	<i>48.5</i>	<i>47.9</i>
Depreciation	(1,773)	(1,953)	(2,673)	(2,682)
EBIT	6,096	6,516	6,636	7,320
Net interest	(4,425)	(4,230)	(3,957)	(3,558)
Other income	302	472	350	300
Profit before tax	1,974	2,758	3,029	4,062
Total taxation	(767)	(858)	(1,030)	(1,422)
<i>Tax rate (%)</i>	<i>38.9</i>	<i>31.1</i>	<i>34.0</i>	<i>35.0</i>
Profit after tax	1,207	1,900	1,999	2,640
Minorities	-	-	-	-
Profit/ Loss associate co(s)	17	10	24	(46)
Adjusted net profit	1,224	1,910	2,023	2,594
<i>Adj. PAT margin (%)</i>	<i>6.9</i>	<i>10.5</i>	<i>10.5</i>	<i>12.4</i>
Net non-recurring items	(387)	-	-	-
Reported net profit	836	1,910	2,023	2,594

Balance sheet (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	306	306	306	306
Reserves & surplus	19,888	21,565	23,184	25,260
Net worth	20,194	21,871	23,490	25,566
Borrowing	36,233	33,542	38,873	35,654
Other non-current liabilities	1,080	481	481	481
Total liabilities	62,293	58,691	65,641	64,497
Gross fixed assets	50,366	50,808	50,808	50,808
Less: Depreciation	(6,817)	(8,770)	(11,443)	(14,125)
Net fixed assets	43,549	42,038	39,366	36,683
Add: Capital WIP	1,949	3,277	3,277	3,277
Total fixed assets	45,497	45,316	42,643	39,961
Total Investment	4,021	5,223	5,223	5,223
Inventory	13,240	9,455	10,873	11,961
Debtors	2,786	1,470	1,691	1,860
Cash & bank	1,630	812	9,520	10,701
Loans & advances	1,783	1,822	2,004	2,110
Current liabilities	9,464	9,290	10,196	11,201
Net current assets	10,844	4,812	14,434	15,973
Other non-current assets	1,931	3,340	3,340	3,340
Total assets	62,293	58,691	65,641	64,497

Source: Company, Axis Capital

Cash flow (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,974	2,758	3,029	4,062
Depreciation & Amortisation	1,773	1,953	2,673	2,682
<i>Chg in working capital</i>	<i>2,368</i>	<i>5,214</i>	<i>(915)</i>	<i>(358)</i>
Cash flow from operations	7,649	12,891	7,364	8,223
<i>Capital expenditure</i>	<i>(5,760)</i>	<i>(3,181)</i>	-	-
Cash flow from investing	(6,954)	(3,912)	350	300
<i>Equity raised/ (repaid)</i>	<i>2,865</i>	<i>150</i>	-	-
<i>Debt raised/ (repaid)</i>	<i>2,671</i>	<i>(2,691)</i>	<i>5,331</i>	<i>(3,219)</i>
<i>Dividend paid</i>	<i>(245)</i>	<i>(382)</i>	<i>(405)</i>	<i>(519)</i>
Cash flow from financing	867	(7,153)	970	(7,297)
Net chg in cash	1,562	1,826	8,684	1,227

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	8.0	12.5	13.2	17.0
CEPS (Rs)	17.1	25.2	30.7	34.5
DPS (Rs)	1.6	2.5	2.6	3.4
Dividend payout ratio (%)	29.3	20.0	20.0	20.0
GROWTH				
Net sales (%)	7.6	2.5	5.2	8.9
EBITDA (%)	3.3	7.6	9.9	7.5
Adj net profit (%)	(5.3)	56.1	6.0	28.2
FDEPS (%)	(10.4)	56.1	6.0	28.2
PERFORMANCE				
RoE (%)	6.6	9.1	8.9	10.6
RoCE (%)	10.6	11.6	11.2	11.7
EFFICIENCY				
Asset turnover (x)	0.3	0.3	0.3	0.4
Sales/ total assets (x)	0.3	0.3	0.3	0.3
Working capital/ sales (x)	0.6	0.4	0.2	0.2

FINANCIAL STABILITY

Total debt/ equity (x)	1.5	1.4	1.5	1.3
Net debt/ equity (x)	1.4	1.3	1.2	0.9
Current ratio (x)	2.1	1.5	2.4	2.4
Interest cover (x)	1.4	1.5	1.7	2.1
VALUATION				
PE (x)	51.9	33.3	31.4	24.5
EV/ EBITDA (x)	12.5	11.4	10.0	8.8
EV/ Net sales (x)	5.5	5.3	4.8	4.2
PB (x)	3.1	2.9	2.7	2.5
Dividend yield (%)	0.4	0.6	0.6	0.8
Free cash flow yield (%)	3.0	15.3	11.6	12.9

Source: Company, Axis Capital

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, authors (Research team) and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associates do not have any material conflict of interest. I/we have not served as director, officer or employee in the subject company.

Research Team

Sr. No	Name	Designation	E-mail
1	Akhand Singh	Research Analyst	akhand.singh@axissecurities.in
2	Poonam Darade	Research Associate	poonam.darade@axissecurities.in

5. ASL or its associates has not received any compensation from the subject company in the past twelve months. ASL or its Research Analysts has not been engaged in market making activity for the subject company.

6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

- i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
- ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
- iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed 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, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 18002100808/022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkarMarg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.