

## PHOENIX MILLS

REAL ESTATE

12 APR 2017

Company Update

**BUY**

Target Price: Rs 528

### Mall portfolio to see significant rerating

Phoenix Mills Ltd's (PML) ~49% stake divestment in its subsidiary holding MarketCity Bangalore for ~Rs 16 bn to CPPIB **values the mall at a cap rate of 6.4% as per our estimate** (after stripping off additional development potential worth Rs 2 bn). The cap rate of <7% is extremely lucrative and would **significantly rerate valuation of its other malls** (except Kurla mall). We revise our cap rate to 7% (from 8.5% earlier) for HSP, Pune, and Chennai malls (we continue to value Kurla at 9% cap rate due to its below par performance). Consequently, our revised TP stands at Rs 528 (vs. Rs 413 earlier).

**Improved visibility of portfolio growth:** Management plans to **double the retail portfolio in next 2 years**, which will be driven by this platform (the subsidiary to serve as platform).

CMP : Rs 403  
Potential Upside : 31%

#### MARKET DATA

No. of Shares : 153 mn  
Free Float : 37%  
Market Cap : Rs 62 bn  
52-week High / Low : Rs 445 / Rs 285  
Avg. Daily vol. (6mth) : 82,141 shares  
Bloomberg Code : PHNX IB Equity  
Promoters Holding : 63%  
FII / DII : 30% / 3%

### Key highlights of deal

- ◆ CPPIB to initially invest Rs 7.24 bn for 30% stake and gradually increase it to 49% with total investment of Rs 16 bn
- ◆ PML will not invest any cash in the platform, i.e. funds will be contributed by CPPIB only
- ◆ As per the management, pre-money EV of ISMDPL<sup>^</sup> is pegged at Rs 22 bn with debt of Rs 5.35 bn
- ◆ Additionally, the subsidiary has ~1 msf of additional development potential (FSI), where the company plans to make a mixed-use development, which we value at ~Rs 2 bn. Also, the company has right to purchase TDR of 1.2 msf which we have not factored in the valuation, as it has not been paid for
- ◆ PML expects to **generate multiple revenue streams from the platform** such as (1) management fee of 4% of GOR, (2) development management fee of 6.5% (on cost) of all new greenfield ventures undertaken by the SPV, (3) operator fees of 1.2% of NOI for all new operating assets (ex-of Island Star's current assets), (4) one-time fee for each new lease (2 months of contracted monthly rentals) and (5) acquisition fee of 1% (on value) for every new asset acquired

### Financial summary (Consolidated)

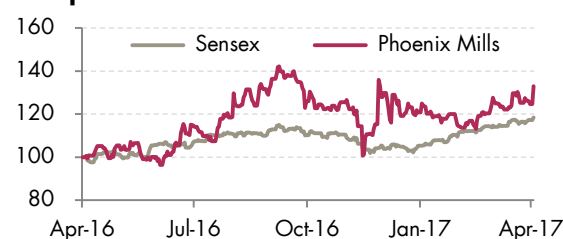
| Y/E March        | FY16   | FY17E  | FY18E  | FY19E  |
|------------------|--------|--------|--------|--------|
| Revenue (Rs mn)  | 17,786 | 17,779 | 19,996 | 21,803 |
| Adj PAT (Rs mn)  | 1,203  | 1,826  | 2,084  | 2,478  |
| EPS (Rs)         | 7.9    | 11.9   | 13.6   | 16.2   |
| Change YOY (%)   | (11.9) | 51.9   | 14.1   | 18.9   |
| Net Debt (Rs mn) | 36,820 | 37,312 | 35,796 | 32,911 |
| Networth (Rs mn) | 18,686 | 20,147 | 21,815 | 23,797 |
| RoE (%)          | 6.8    | 9.4    | 9.9    | 10.9   |
| RoCE (%)         | 10.5   | 10.6   | 10.7   | 11.2   |
| P/E (x)          | 51.2   | 33.7   | 29.6   | 24.9   |
| P/B (x)          | 3.3    | 3.1    | 2.8    | 2.6    |

Source: Company, Axis Capital; <sup>^</sup>ISMDPL – Island Star Mall Developers Pvt Ltd, which is the subsidiary

### Key drivers - Rental income

| (Rs mn)   | Q3'17 | Q3'16 | % YoY | Q2'17 | % QoQ |
|-----------|-------|-------|-------|-------|-------|
| HSP       | 752   | 675   | 11%   | 702   | 7%    |
| Pune      | 324   | 263   | 23%   | 284   | 14%   |
| Bengaluru | 292   | 243   | 20%   | 263   | 11%   |
| Kurla     | 232   | 231   | 0%    | 230   | 1%    |
| Chennai   | 306   | 294   | 4%    | 326   | -6%   |

### Price performance



## Other highlights

- ◆ Mandate of the platform is to invest in retail-led mixed-use development (~65% towards retail)
- ◆ Intent is to conduct further acquisitions exclusively with CPPIB. The platform will not invest in buying out PE stakes from other investors in PML assets
- ◆ First tranche of funds to be invested in the next 7 days. Balance tranche should come though dependent on closure of acquisitions for which the capital will be deployed. Management expects the funds to be deployed (all tranches) over the next 3 years.
- ◆ Deal pipeline for capital deployment: Mandate of the platform is flexible for land, operational malls or malls under development. Management has identified target cities (Tier-1: Mumbai, NCR, Bangalore, Hyderabad, Pune etc.), where assets that can be leadership malls in their cities. Focus is to acquire leaderships assets (~1 msf size of assets) as opposed to looking at stressed assets

### Exhibit 1: CPPIB to acquire 30% stake initially

|                                  | (Rs mn) |
|----------------------------------|---------|
| Pre-money EV of ISMDPL           | 22,000  |
| Debt                             | 5,350   |
| Pre-money equity value of ISMDPL | 16,650  |
| PML's stake pre-money (%)        | 100%    |
| Equity investment by CPPIB       | 7,240   |
| Post money Equity value          | 23,890  |
| CPPIB's stake (post money) (%)   | 30%     |
| PML's stake post-money (%)       | 70%     |

Source: Company, Axis Capital

### Exhibit 2: Subsequently to scale up its stake to 49%

|                                  | (Rs mn) |
|----------------------------------|---------|
| Pre-money EV of ISMDPL           | 22,000  |
| Debt                             | 5,350   |
| Pre-money equity value of ISMDPL | 16,650  |
| PML's stake pre-money (%)        | 100%    |
| Equity investment by CPPIB       | 16,000  |
| Post money Equity value          | 32,650  |
| CPPIB's stake (post money) (%)   | 49%     |
| PML's stake post-money (%)       | 51%     |

Source: Company, Axis Capital

**Exhibit 3: Valuation of Island Star Mall Developers Pvt Ltd**

|   | (Rs mn)       |
|---|---------------|
| <b>OberHaus (development potential)</b> |               |
| Saleable area (msf)                     | 1.0           |
| FSI value (Rs psf)                      | 2,000         |
| Value of saleable portion (Rs mn)       | 2,000         |
| <b>Marketcity Bangalore</b>             |               |
| Leasable area (msf)                     | 1.0           |
| Net Operating Income                    | 1,268         |
| Cap rate (%)                            | 6.40%         |
| EV of mall                              | 19,819        |
| Add: Value of development potential     | 2,000         |
| <b>Total EV</b>                         | <b>21,819</b> |

Source: Company, Axis Capital

**Exhibit 4: Annuity business**

| (Rs mn)                  | PML's stake | Quarterly EBITDA | NoI (1 yrfwd) | EV     | Net debt | Equity value | Equity Value (PML's stake) |
|--------------------------|-------------|------------------|---------------|--------|----------|--------------|----------------------------|
| <b>Malls</b>             |             |                  |               |        |          |              |                            |
| HSP                      | 100%        | 668              | 2,672         | 38,171 | 7,499    | 30,672       | 30,672                     |
| Pune                     | 87%         | 293              | 1,172         | 16,743 | 5,475    | 11,268       | 9,758                      |
| Bangalore                | 70%         | 273              | 1,268         | 19,819 | (1,890)  | 21,709       | 15,196                     |
| Kurla                    | 65%         | 253              | 1,012         | 11,244 | 7,256    | 3,988        | 2,608                      |
| Chennai                  | 50%         | 308              | 1,232         | 17,600 | 4,350    | 13,250       | 6,625                      |
| Phoenix United, Bareilly | 100%        | 59               | 236           | 2,950  | 859      | 2,091        | 2,091                      |
| Phoenix United, Lucknow  | 100%        | 48               | 192           | 2,400  | 842      | 1,558        | 1,558                      |
| <b>Sub-total</b>         |             |                  |               |        |          |              | <b>68,509</b>              |
| <b>Hotels</b>            |             |                  |               |        |          |              |                            |
| St. Regis                | 59%         | 179              | 716           | 7,160  | 6,372    | 788          | 461                        |
| Gagentic hotels          | 43%         | 27               | 108           | 864    | 1,277    | (413)        | (178)                      |
| <b>Sub-total</b>         |             |                  |               |        |          |              | <b>283</b>                 |
| <b>Total</b>             |             |                  |               |        |          |              | <b>68,792</b>              |

Source: Company, Axis Capital

**Exhibit 5: Valuation of development business**

|                                     | (Rs mn)       |
|-------------------------------------|---------------|
| Area of ongoing projects (msf)      | 7.2           |
| Area sold till date (msf)           | 2.7           |
| Value of sales                      | 27,119        |
| Amount collected                    | 23,627        |
| Receivables from area sold          | 3,492         |
| Value of unsold stock               | 41,711        |
| Balance cost to be incurred         | 14,323        |
| Net cash flow                       | 30,880        |
| PML's share in net cash flow        | 25,139        |
| No. of years                        | 5             |
| NPV of cash flow from dev projects  | 11,546        |
| Less: Net debt                      | 243           |
| <b>Equity value of dev projects</b> | <b>11,303</b> |

Source: Company, Axis Capital

**Exhibit 6: SoTP Valuation**

|                                      | (Rs mn)       |
|--------------------------------------|---------------|
| Equity value of annuity business     | 68,792        |
| Equity value of development business | 11,303        |
| Add: cash and cash equivalents       | 713           |
| <b>Total Equity Value</b>            | <b>80,807</b> |
| No. of shares O/S (mn)               | 153           |
| <b>Equity Value per share (Rs)</b>   | <b>528</b>    |

Source: Company, Axis Capital

## Financial summary (Consolidated)

### Profit & loss (Rs mn)

| Y/E March                     | FY16          | FY17E         | FY18E         | FY19E         |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net sales                     | 17,786        | 17,779        | 19,996        | 21,803        |
| Other operating income        | -             | -             | -             | -             |
| <b>Total operating income</b> | <b>17,786</b> | <b>17,779</b> | <b>19,996</b> | <b>21,803</b> |
| Cost of goods sold            | (2,847)       | (2,428)       | (2,932)       | (3,401)       |
| Gross profit                  | 14,939        | 15,350        | 17,065        | 18,402        |
| <i>Gross margin (%)</i>       | <i>84.0</i>   | <i>86.3</i>   | <i>85.3</i>   | <i>84.4</i>   |
| Total operating expenses      | (7,038)       | (6,850)       | (7,608)       | (8,632)       |
| <b>EBITDA</b>                 | <b>7,900</b>  | <b>8,501</b>  | <b>9,456</b>  | <b>9,770</b>  |
| <i>EBITDA margin (%)</i>      | <i>44.4</i>   | <i>47.8</i>   | <i>47.3</i>   | <i>44.8</i>   |
| Depreciation                  | (1,773)       | (1,935)       | (2,673)       | (2,682)       |
| <b>EBIT</b>                   | <b>6,127</b>  | <b>6,566</b>  | <b>6,783</b>  | <b>7,088</b>  |
| Net interest                  | (4,305)       | (4,297)       | (3,962)       | (3,564)       |
| Other income                  | 312           | 380           | 300           | 300           |
| <b>Profit before tax</b>      | <b>2,134</b>  | <b>2,649</b>  | <b>3,121</b>  | <b>3,824</b>  |
| Total taxation                | (746)         | (901)         | (1,061)       | (1,300)       |
| <i>Tax rate (%)</i>           | <i>34.9</i>   | <i>34.0</i>   | <i>34.0</i>   | <i>34.0</i>   |
| Profit after tax              | 1,389         | 1,748         | 2,060         | 2,524         |
| Minorities                    | (203)         | -             | -             | -             |
| Profit/ Loss associate co(s)  | 17            | 78            | 24            | (46)          |
| Adjusted net profit           | 1,203         | 1,826         | 2,084         | 2,478         |
| <i>Adj. PAT margin (%)</i>    | <i>6.8</i>    | <i>10.3</i>   | <i>10.4</i>   | <i>11.4</i>   |
| Net non-recurring items       | (387)         | -             | -             | -             |
| Reported net profit           | 815           | 1,826         | 2,084         | 2,478         |

### Balance sheet (Rs mn)

| Y/E March                     | FY16          | FY17E         | FY18E         | FY19E         |
|-------------------------------|---------------|---------------|---------------|---------------|
| Paid-up capital               | 306           | 306           | 306           | 306           |
| Reserves & surplus            | 18,380        | 19,841        | 21,509        | 23,491        |
| Net worth                     | 18,686        | 20,147        | 21,815        | 23,797        |
| Borrowing                     | 38,776        | 39,159        | 37,609        | 34,389        |
| Other non-current liabilities | 2,453         | 2,453         | 2,453         | 2,453         |
| <b>Total liabilities</b>      | <b>64,426</b> | <b>66,269</b> | <b>66,387</b> | <b>65,150</b> |
| Gross fixed assets            | 50,334        | 50,334        | 50,334        | 50,334        |
| Less: Depreciation            | (6,817)       | (8,752)       | (11,425)      | (14,107)      |
| Net fixed assets              | 43,517        | 41,582        | 38,909        | 36,226        |
| Add: Capital WIP              | 1,949         | 1,949         | 1,949         | 1,949         |
| Total fixed assets            | 45,466        | 43,530        | 40,858        | 38,175        |
| Total Investment              | 2,025         | 2,025         | 2,025         | 2,025         |
| Inventory                     | 13,240        | 15,888        | 18,271        | 20,098        |
| Debtors                       | 3,201         | 3,841         | 4,417         | 4,859         |
| Cash & bank                   | 1,956         | 1,847         | 1,812         | 1,478         |
| Loans & advances              | 5,559         | 6,392         | 7,032         | 7,404         |
| Current liabilities           | 7,477         | 7,711         | 8,485         | 9,346         |
| Net current assets            | 16,675        | 20,454        | 23,244        | 24,690        |
| Other non-current assets      | 260           | 260           | 260           | 260           |
| <b>Total assets</b>           | <b>64,426</b> | <b>66,269</b> | <b>66,387</b> | <b>65,150</b> |

Source: Company, Axis Capital

### Cash flow (Rs mn)

| Y/E March                        | FY16           | FY17E          | FY18E          | FY19E          |
|----------------------------------|----------------|----------------|----------------|----------------|
| Profit before tax                | 2,134          | 2,649          | 3,121          | 3,824          |
| Depreciation & Amortisation      | 1,773          | 1,935          | 2,673          | 2,682          |
| <i>Chg in working capital</i>    | <i>(3,138)</i> | <i>(3,888)</i> | <i>(2,825)</i> | <i>(1,780)</i> |
| <b>Cash flow from operations</b> | <b>3,568</b>   | <b>3,712</b>   | <b>5,570</b>   | <b>6,690</b>   |
| <i>Capital expenditure</i>       | <i>(4,058)</i> | -              | -              | -              |
| <b>Cash flow from investing</b>  | <b>(3,245)</b> | <b>380</b>     | <b>300</b>     | <b>300</b>     |
| <i>Equity raised/ (repaid)</i>   | <i>1,375</i>   | -              | -              | -              |
| <i>Debt raised/ (repaid)</i>     | <i>5,214</i>   | <i>383</i>     | <i>(1,550)</i> | <i>(3,219)</i> |
| <i>Dividend paid</i>             | <i>(241)</i>   | <i>(365)</i>   | <i>(417)</i>   | <i>(496)</i>   |
| <b>Cash flow from financing</b>  | <b>2,043</b>   | <b>(4,280)</b> | <b>(5,929)</b> | <b>(7,279)</b> |
| Net chg in cash                  | 2,366          | (187)          | (59)           | (289)          |

### Key ratios

| Y/E March                  | FY16   | FY17E | FY18E | FY19E |
|----------------------------|--------|-------|-------|-------|
| <b>OPERATIONAL</b>         |        |       |       |       |
| FDEPS (Rs)                 | 7.9    | 11.9  | 13.6  | 16.2  |
| CEPS (Rs)                  | 16.9   | 24.6  | 31.1  | 33.7  |
| DPS (Rs)                   | 1.6    | 2.4   | 2.7   | 3.2   |
| Dividend payout ratio (%)  | 29.5   | 20.0  | 20.0  | 20.0  |
| <b>GROWTH</b>              |        |       |       |       |
| Net sales (%)              | 7.6    | -     | 12.5  | 9.0   |
| EBITDA (%)                 | 3.7    | 7.6   | 11.2  | 3.3   |
| Adj net profit (%)         | (6.9)  | 51.9  | 14.1  | 18.9  |
| FDEPS (%)                  | (11.9) | 51.9  | 14.1  | 18.9  |
| <b>PERFORMANCE</b>         |        |       |       |       |
| RoE (%)                    | 6.8    | 9.4   | 9.9   | 10.9  |
| RoCE (%)                   | 10.5   | 10.6  | 10.7  | 11.2  |
| <b>EFFICIENCY</b>          |        |       |       |       |
| Asset turnover (x)         | 0.3    | 0.3   | 0.3   | 0.4   |
| Sales/ total assets (x)    | 0.3    | 0.2   | 0.3   | 0.3   |
| Working capital/ sales (x) | 0.7    | 0.9   | 1.0   | 1.0   |

### FINANCIAL STABILITY

|                          |       |      |      |      |
|--------------------------|-------|------|------|------|
| Total debt/ equity (x)   | 1.7   | 1.6  | 1.5  | 1.3  |
| Net debt/ equity (x)     | 1.6   | 1.6  | 1.4  | 1.2  |
| Current ratio (x)        | 3.2   | 3.7  | 3.7  | 3.6  |
| Interest cover (x)       | 1.4   | 1.5  | 1.7  | 2.0  |
| <b>VALUATION</b>         |       |      |      |      |
| PE (x)                   | 51.2  | 33.7 | 29.6 | 24.9 |
| EV/ EBITDA (x)           | 12.5  | 11.6 | 10.3 | 9.7  |
| EV/ Net sales (x)        | 5.5   | 5.6  | 4.9  | 4.3  |
| PB (x)                   | 3.3   | 3.1  | 2.8  | 2.6  |
| Dividend yield (%)       | 0.4   | 0.6  | 0.7  | 0.8  |
| Free cash flow yield (%) | (0.8) | 6.0  | 9.0  | 10.9 |

Source: Company, Axis Capital

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