

## PHOENIX MILLS

REAL ESTATE

21 FEB 2018

Quarterly Update

**BUY**

Target Price: Rs 707

### Rental growth to sustain over FY19-20

**Malls:** Rental income at its malls grew 10% YoY on improved consumption growth of 8% YoY (vs. 4% YoY in Q2 which was impacted by refurbishment at High Street Phoenix (HSP). Management expects rental growth to sustain over FY19-20, driven by rental renewals (~1.8 msf/~35% of its leasable area up for renewal over FY18-20) and uptick in consumption at its malls.

**Long-term outlook:** Visibility on growth in remains strong driven by (1) Chennai Palladium (0.22 msf), (2) addition of Pune mall to its portfolio, and (3) CPPIB<sup>^</sup> platform with capital commitments of ~Rs 14 bn to be deployed for growth. **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. Maintain **BUY**.

CMP : Rs 596  
Potential Upside : 19%

#### MARKET DATA

No. of Shares : 153 mn  
Free Float : 37%  
Market Cap : Rs 91 bn  
52-week High / Low : Rs 700 / Rs 339  
Avg. Daily vol. (6mth) : 128,024 shares  
Bloomberg Code : PHNX IB Equity  
Promoters Holding : 63%  
FII / DII : 30% / 2%

### Key highlights

- ♦ **High Street Phoenix (HSP):** While consumption growth remained muted at 1% YoY (vs. 10% YoY decline in Q2), consumption in Q4 will benefit from re-launch of 50,000 sf (~11% of leasable area) which became operational in December 2017. As a result of the refurbishments, occupancy levels were lower at 90% in Q3FY18 (vs. 97% in Q3FY17). However, average rentals increased 14% YoY to Rs 369 (vs. 324 psf p.m in Q3FY17)
- ♦ **Strong rental income growth across Market City malls:** Kurla (up 23% YoY), Chennai (up 15% YoY), Bangalore (up 13% YoY), and Pune (up 10% YoY). Management expects Kurla mall to continue to see improvement in rentals and consumption driven by recent refurbishments at the mall and captive demand from commercial offices in the vicinity
- ♦ **Update on Wakad, Pune Mall:** Acquired 0.3 msf of TDR during Q3, which will allow for 1 msf of retail development at the project. Initial plans for the project were sanctioned by the municipal corporation on 2<sup>nd</sup> January 2018
- ♦ **Update on CCPIB platform:** PHNX is currently evaluating acquisition of land parcels in Ahmedabad, Chandigarh, Bangalore and Lucknow, and expects to finalize 2 transactions in the next 3 to 4 months which will result in full deployment of the equity tranche of ~Rs 17 bn

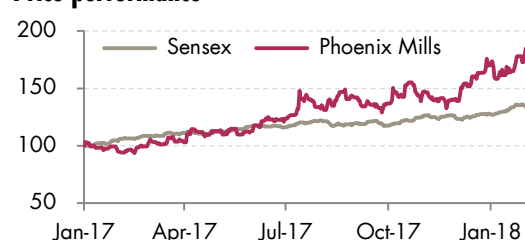
#### Financial summary (Consolidated)

Y/E March	FY17	FY18E	FY19E	FY20E
Revenue (Rs mn)	18,246	17,309	18,972	21,245
Adj PAT (Rs mn)	1,910	2,437	3,008	3,795
EPS (Rs)	12.5	15.9	19.7	24.8
Change YOY (%)	56.1	27.6	23.4	26.2
Net Debt (Rs mn)	32,730	30,980	29,867	28,222
Networth (Rs mn)	21,871	31,061	33,467	36,504
RoE (%)	9.1	9.2	9.3	10.8
RoCE (%)	11.6	10.4	9.8	11.3
P/E (x)	47.8	37.4	30.3	24.0
P/B (x)	4.2	2.9	2.7	2.5

#### Key drivers - Rental income

(Rs mn)	Q3'18	Q3'17	% YoY	Q2'18	% QoQ
HSP	776	752	3%	713	9%
Pune	357	324	10%	332	8%
Bengaluru	329	292	13%	311	6%
Kurla	284	232	23%	271	5%
Chennai	351	306	15%	343	2%

#### Price performance



Source: Company, Axis Capital ^CPPIB: Canadian Pension Plan Investment Board, CMP as on 15 Feb 2018

**Exhibit 1: Results update – (Consolidated)**

(Rs. mn)	Quarter ended					12 months ended		
	Dec-17	Dec-16	% Chg	Sep-17	% Chg	Mar-18	Mar-17	% Chg
<b>Net Sales</b>	<b>4,166</b>	<b>4,367</b>	<b>(4.6)</b>	<b>3,706</b>	<b>12.4</b>	<b>17,309</b>	<b>18,246</b>	<b>(5.1)</b>
EBIDTA	2,067	2,137	(3.3)	1,785	15.8	8,310	8,469	(1.9)
Other income	106	112	(5.7)	149	(29.0)	542	472	15.0
<b>PBITD</b>	<b>2,173</b>	<b>2,250</b>	<b>(3.4)</b>	<b>1,934</b>	<b>12.4</b>	<b>8,853</b>	<b>8,941</b>	<b>(1.0)</b>
Depreciation	485	489	(1.0)	510	(5.0)	1,951	1,953	(0.1)
Interest	883	1,077	(18.0)	857	3.0	3,573	4,230	(15.5)
<b>PBT</b>	<b>806</b>	<b>684</b>	<b>17.9</b>	<b>567</b>	<b>42.2</b>	<b>3,329</b>	<b>2,758</b>	<b>20.7</b>
Tax	218	54	302.8	267	(18.4)	1,165	858	35.9
<b>PAT</b>	<b>652</b>	<b>445</b>	<b>46.5</b>	<b>418</b>	<b>56.3</b>	<b>2,164</b>	<b>1,900</b>	<b>13.9</b>
Share of profit/ (loss) in assoc.	109	7	-	123	(11)	273	10	-
<b>Rep. PAT</b>	<b>652</b>	<b>445</b>	<b>46.5</b>	<b>418</b>	<b>56.3</b>	<b>2,437</b>	<b>1,910</b>	<b>27.6</b>
No. of shares (mn)	<b>652</b>	<b>445</b>	<b>46.5</b>	<b>418</b>	<b>56.3</b>	<b>2,437</b>	<b>1,910</b>	<b>27.6</b>
EBIDTA margin (%)	153	153	-	153	-	153	153	-
<b>Adj. EPS - annualized (Rs.)</b>	<b>49.6</b>	<b>48.9</b>	<b>-</b>	<b>48.2</b>	<b>-</b>	<b>48.0</b>	<b>46.4</b>	<b>-</b>

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

**Other highlights**

- ♦ **Development portfolio:** Pre-sales and collections were muted at Rs 0.3 bn/ Rs 0.2 bn. While the company sold ~20 units in One Bangalore West in Q3, it could not book them as it had collected <30% (expect to book them in Q4). Revenue recognition from development remained muted at Rs 0.3 bn in Q3 (vs. 0.28 bn in Q2FY18), as outlook for the residential business remains muted
- ♦ **Gross debt increased marginally in Q3 to Rs ~41 bn** (vs. Rs 40 bn in Q2) on account of Rs 0.8 bn additional debt in **Blackwood Developers SPV** (PMC, Bareilly). Of the total gross debt, ~Rs 31 bn pertains to retail assets, Rs 6 bn towards hospitality and the balance towards commercial and residential assets. **Cost of debt declined** by ~15 bps to 9.05% (vs. 9.3% as on Sept'17), with the company expecting to achieve an effective cost of debt of ~8.6% by Mar'18 (cost of debt in Jan'18 is at 8.99%)
- ♦ **Hotel St. Regis:** Room revenue growth slowed to 5% YoY in Q3 (vs. 15% YoY in Q2) on account of decline in occupancy levels to 76% (vs 79% in Q3FY17), offset by 15% increase in ARR's at Rs 12,217/night (vs Rs 10,666 in Q3FY17)
- ♦ **Chennai Palladium:** The mall opened in October 2017 and has received a good response from customers. Grand opening of the mall is officially scheduled for 17<sup>th</sup> February 2018. Average rentals at this location are in the range of Rs 170 to 180 psf p.m
- ♦ **Commercial portfolio:** In Q3, an additional 64,000 sf at Art Guild House was leased out (total area leased at the project now at 85%). With that, PHNX's 1.6 msf commercial portfolio is currently 83% leased

## Financial summary (Consolidated)

### Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	18,246	17,309	18,972	21,245
Other operating income	-	-	-	-
<b>Total operating income</b>	<b>18,246</b>	<b>17,309</b>	<b>18,972</b>	<b>21,245</b>
Cost of goods sold	(2,466)	(1,329)	(1,684)	(2,074)
Gross profit	15,780	15,980	17,289	19,171
<i>Gross margin (%)</i>	<i>86.5</i>	<i>92.3</i>	<i>91.1</i>	<i>90.2</i>
Total operating expenses	(7,310)	(7,670)	(8,437)	(9,281)
<b>EBITDA</b>	<b>8,469</b>	<b>8,310</b>	<b>8,852</b>	<b>9,891</b>
<i>EBITDA margin (%)</i>	<i>46.4</i>	<i>48.0</i>	<i>46.7</i>	<i>46.6</i>
Depreciation	(1,953)	(1,951)	(2,195)	(2,339)
<b>EBIT</b>	<b>6,516</b>	<b>6,359</b>	<b>6,657</b>	<b>7,551</b>
Net interest	(4,230)	(3,573)	(3,184)	(2,848)
Other income	472	542	624	717
<b>Profit before tax</b>	<b>2,758</b>	<b>3,329</b>	<b>4,096</b>	<b>5,421</b>
Total taxation	(858)	(1,165)	(1,434)	(1,897)
<i>Tax rate (%)</i>	<i>31.1</i>	<i>35.0</i>	<i>35.0</i>	<i>35.0</i>
Profit after tax	1,900	2,164	2,663	3,524
Minorities	-	-	-	-
Profit/ Loss associate co(s)	10	273	345	271
Adjusted net profit	1,910	2,437	3,008	3,795
<i>Adj. PAT margin (%)</i>	<i>10.5</i>	<i>14.1</i>	<i>15.9</i>	<i>17.9</i>
Net non-recurring items	-	-	-	-
Reported net profit	1,910	2,437	3,008	3,795

### Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	306	306	306	306
Reserves & surplus	21,565	30,755	33,161	36,197
Net worth	21,871	31,061	33,467	36,504
Borrowing	33,542	39,964	36,940	33,191
Other non-current liabilities	481	481	481	481
<b>Total liabilities</b>	<b>58,691</b>	<b>74,302</b>	<b>73,684</b>	<b>72,972</b>
Gross fixed assets	50,808	50,808	50,808	50,808
Less: Depreciation	(8,770)	(10,721)	(12,916)	(15,256)
Net fixed assets	42,038	40,087	37,892	35,553
Add: Capital WIP	3,277	5,277	7,277	9,277
Total fixed assets	45,316	45,365	45,170	44,830
Total Investment	5,223	6,247	6,247	6,247
Inventory	9,455	10,400	11,441	12,585
Debtors	1,470	1,764	2,117	2,540
Cash & bank	812	8,984	7,073	4,969
Loans & advances	1,822	2,733	3,280	3,936
Current liabilities	9,290	7,241	7,692	8,185
Net current assets	4,812	19,350	18,927	18,554
Other non-current assets	3,340	3,340	3,340	3,340
<b>Total assets</b>	<b>58,691</b>	<b>74,302</b>	<b>73,685</b>	<b>72,972</b>

Source: Company, Axis Capital

### Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	2,758	3,329	4,096	5,421
Depreciation & Amortisation	1,953	1,951	2,195	2,339
<i>Chg in working capital</i>	<i>5,214</i>	<i>(6,367)</i>	<i>(1,488)</i>	<i>(1,731)</i>
<b>Cash flow from operations</b>	<b>12,891</b>	<b>779</b>	<b>5,930</b>	<b>6,263</b>
<i>Capital expenditure</i>	<i>(3,181)</i>	<i>(2,000)</i>	<i>(2,000)</i>	<i>(2,000)</i>
<b>Cash flow from investing</b>	<b>(3,912)</b>	<b>(2,482)</b>	<b>(1,376)</b>	<b>(1,283)</b>
<i>Equity raised/ (repaid)</i>	<i>150</i>	<i>7,240</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(2,691)</i>	<i>6,421</i>	<i>(3,024)</i>	<i>(3,749)</i>
<i>Dividend paid</i>	<i>(382)</i>	<i>(487)</i>	<i>(602)</i>	<i>(759)</i>
<b>Cash flow from financing</b>	<b>(7,153)</b>	<b>9,601</b>	<b>(6,810)</b>	<b>(7,355)</b>
Net chg in cash	1,826	7,898	(2,256)	(2,375)

### Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
<b>OPERATIONAL</b>				
FDEPS (Rs)	12.5	15.9	19.7	24.8
CEPS (Rs)	25.2	28.7	34.0	40.1
DPS (Rs)	2.5	3.2	3.9	5.0
Dividend payout ratio (%)	20.0	20.0	20.0	20.0
<b>GROWTH</b>				
Net sales (%)	2.5	(5.1)	9.6	12.0
EBITDA (%)	7.6	(1.9)	6.5	11.7
Adj net profit (%)	56.1	27.6	23.4	26.2
FDEPS (%)	56.1	27.6	23.4	26.2
<b>PERFORMANCE</b>				
RoE (%)	9.1	9.2	9.3	10.8
RoCE (%)	11.6	10.4	9.8	11.3
<b>EFFICIENCY</b>				
Asset turnover (x)	0.3	0.3	0.3	0.3
Sales/ total assets (x)	0.3	0.2	0.2	0.3
Working capital/ sales (x)	0.4	0.4	0.6	0.6

<b>Current ratio (x)</b>	<b>1.5</b>	<b>3.7</b>	<b>3.5</b>	<b>3.3</b>
Interest cover (x)	1.5	1.8	2.1	2.7

<b>VALUATION</b>				
PE (x)	47.8	37.4	30.3	24.0
EV/ EBITDA (x)	14.6	14.7	13.7	12.1
<b>EV/ Net sales (x)</b>	<b>6.8</b>	<b>7.1</b>	<b>6.4</b>	<b>5.6</b>
PB (x)	4.2	2.9	2.7	2.5
Dividend yield (%)	0.4	0.5	0.7	0.8
Free cash flow yield (%)	10.6	(1.3)	4.3	4.7

Source: Company, Axis Capital

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