

## Phoenix Mills

Annuity income could grow 4x in four years

We hosted Phoenix Mills for investor meetings as part of *J.P. Morgan India Emerging Opportunities Access Day*. Management commentary was fairly optimistic on the back of portfolio growth coming from market city completions (5.3msf by FY13 from c0.9msf), rent renewals at HSP (+10-15% upside to avg. rentals) and increasing visibility on Phase II launch plans. Overall the company expects the rental income to increase to US\$150MM (PML stake ~55%) on stabilization (by FY15/16) from US\$40MM currently.

Key takeaways of the meetings include -

- **HSP continues to register steady performance** with robust footfalls (1.6M/month) given festive season. Recent anchor tenant renewals and area reconfiguration is expected to push up rentals from Dec-Q. Overall, revenue from HSP is expected to increase to ~Rs2B in FY12 (vs. Rs1.75B in FY11). On Phase IV, there is limited visibility on the development plans as yet.
- **Response to Pune market city (opened in June) has been a fairly decent** with average footfalls of 0.4MM/month and 60% space already operational. Overall mall is 85% leased at avg. rentals of Rs60-65psf pm. Marginal rents are currently in the range of Rs130-150psf.
- **Upcoming projects may get delayed by 1-2 months:** Work on other market cities is progressing well with Bangalore expected to be launched in Oct end and Kurla opening by Nov/Dec. ShangriLa hotel launch has been pushed further to Jan/Feb. *Refer to page 3 for detailed asset wise update.*
- **Visibility on phase II (of market cities) improving** with Chennai residential launched already (30% sold @ Rs6-6.5K psf) & launch approvals for Bangalore W underway. Overall 4.3msf (PML ~52%) of area is expected to be launched for sale (residential/commercial) over the next 1-2 years. Proceeds from this will be utilized for debt reduction at market city projects.
- **Revisiting hospitality plans:** The company is revisiting its hospitality plans given the capital-intensive and long-gestation period for hotel projects. PML plans to go ahead with only ShangriLa and Agra hotel, while remaining hotel projects (Kurla, Pune) will likely be converted into mixed-use projects.
- **Consolidated gross debt at Rs12.5B increased by ~Rs3B in Sep-Q** due to capex on assets nearing completion & partly as a war chest (as liquid funds) for any expansion opportunity via stake increase in SPVs or new projects.

Phoenix Mills (Reuters: PHOE.BO, Bloomberg: PHNX IN)

Rs in mn, year-end Mar	FY10A	FY11A	FY12E	FY13E
Revenue (Rs mn)	1,230	2,103	2,916	4,736
Net Profit (Rs mn)	620	818	1,103	1,664
EPS (Rs)	4.3	5.7	7.7	11.6
Net debt to Equity	22.1%	34.2%	30.3%	21.0%
EPS growth (%)	-19.3%	32.0%	34.8%	50.9%
ROE	4.0%	5.0%	6.3%	8.9%
P/E (x)	46.0	34.9	25.8	17.1
P/BV (x)	1.8	1.7	1.6	1.5

Source: Company data, Bloomberg, J.P. Morgan estimates.

## Overweight

PHOE.BO, PHNX IN

Price: Rs199.25

Price Target: Rs260.00

### India

### Property

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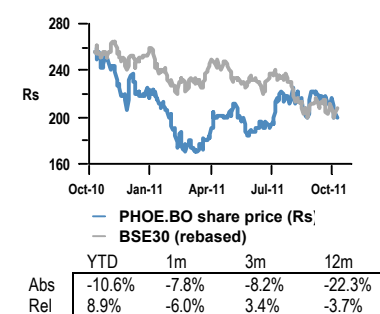
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J.P. Morgan India Private Limited

### Price Performance



Company Data	
Shares O/S (mn)	145
Market cap (\$ mn)	587
Price (Rs)	199.25
Date Of Price	11 Oct 11
3mth Avg daily volume	0.03
3M - Average daily Value (Rs mn)	7
Average 3m Daily Turnover (\$ mn)	0.17
BSE30	16,557
Exchange Rate	49.16

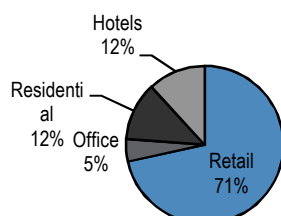
See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

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## Company Description

Phoenix Mills (PML) began operations as a textile manufacturing company in 1905 on 17.3 acres of land in Lower Parel, Mumbai. In 1987, the company largely exited the textile sector and entered into the real estate market in Mumbai by developing High Street Phoenix (HSP) on its textile mill property in Lower Parel. With three phases already operational, the property currently offers 1msf of retail space. PML is replicating its High Street model across key metros (Bangalore, Chennai, Pune and Mumbai) via its market city projects. In addition to this, company has made its retail foray in tier II/III cities via investments in EWDPL and Big Apple.

## NAV break up chart



Source: JPMorgan Estimates

## EPS: J.P. Morgan vs consensus

Rs	J. P. Morgan	Consensus
FY12E	7.7	8.5
FY13E	11.6	11.1

Source: J.P. Morgan, Bloomberg

## Valuation and EPS sensitivity metrics

	NAV impact (%)	EPS impact (%)
Price/rent growth in FY10		
Impact of each 5% point change	3%	2%
Cap rate assumption		
Impact of each 1% point change	3%	0%

Source: J.P. Morgan estimates

## Price target and valuation analysis

Maintain OW with Mar-12 price target of Rs260. Our PT is based on a 20% discount to our SOTP. We use a 13% WACC and 11% cap rate to value the company's retail portfolio.

A key risk is PML's minority stakes in SPVs developing market city projects. This could raise concerns about exits required by private investors (Rs10B invested) once assets become operational (though still some time away).

Key share price catalysts include

1. Progress/Response on opening of the market cities is key to watch out for.
2. Any clarity on permissible FSI in Phase IV at HSP thereby increasing the developable area.

Figure 1: PML - Market city project update

	PHNX stake (%)	Retail	Lease rate	Debt (Rs MM)	Status
Phoenix Market City, Pune	58.5%	1.2	65	4,750	- Opened in Jun-11. 60% space operational with average footfalls of 0.4M/month. - Total leasing of 85%. Avg rentals of Rs65psf with marginal rentals at Rs100-130psf.
Phoenix Market City, Bangalore (E)	46.4%	0.85	65	3,000	- Phase I commercial office (0.3msf) is around 70% sold out at average price of Rs6,500psf. - Tenant fit outs in progress. Occupancy certificate in place. - ~75% leased. Mall to open in Oct end
Phoenix Market City, Kurla (E)	24.3%	1.3	95	5,400	- In fit out stage. Expected to be operational by Q3FY12. ~70% leases in place at avg rental of Rs95 psf pm - Phase I commercial (0.25msf) has been 80% sold out. Average price of ~Rs 9,000psf
Phoenix Market City, Chennai	31.0%	1.0	80	2,750	- Handover not commenced as yet. ~60% leased - Expected to be operational by Q1FY13.

Source: Company

Table 1: PML—Sum-of-the-parts valuation

	Stake	Attributable Area (msf)	Avg rent (for retail)	Avg SP for residential/office	Rs MM	Per share
<b>High Steet Phoenix</b>						
Phase-I-III	100%	0.9	165		16,200	113
Phase-IV	100%	0.3		12,000	3,000	21
Shangri-La	53%	-		ARR 10000	5,006	35
Debt at Shangri La					(1,855)	(13)
<b>Value</b>					<b>3,151</b>	<b>22</b>
<b>Market City Portfolio</b>		<b>4.1</b>			<b>12,378</b>	<b>86</b>
Pune	59%	1.1	65	6,500	5,923	41
Bangalore W	70%	1.4	NA	5,500	3,252	23
Kurla	24%	0.6	90	8,500	4,029	28
Bangalore E	33%	0.5	65	3,200	1,967	14
Chennai	34%	0.5	75	6,000	2,751	19
Total Debt at SPVs					(5,544)	(39)
EWDPL	40.3%	5.4	Rs35-40psf pm	2700	3,383	23
Big Apple	74%	0.43	Rs45 psf pm		1,764	12
	>1000 rooms across 4 hotels				1,100	8
Hospitality (at investment)					400	3
Add: Net cash (Parent Co.)						
<b>DCF Value</b>					<b>37,687</b>	<b>287</b>
<b>Forward NAV</b>						<b>325</b>
<b>PT (20% discount to FNAV)</b>						<b>260</b>

Source: J.P. Morgan estimates.

## Phoenix Mills: Summary of Financials

Profit and Loss Statement					Cash flow statement				
Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E
Revenues	1,230	2,103	2,916	4,736	EBIT	603	1,092	1,427	2,161
% change Y/Y	23.5%	70.9%	38.7%	62.4%	Depr. & amortization	172	314	407	553
EBIT	603	1,092	1,427	2,161	Change in working capital	756	73	92	349
% change Y/Y	18.6%	81.2%	30.7%	51.5%	Others	-	-	-	-
EBIT margin (%)	49.0%	51.9%	48.9%	45.6%	Cash flow from operations	1,404	982	1,244	2,583
Net Interest	157	59	-222	-549	Capex	-3,436	-3,445	-1,287	-1,247
Earnings before tax	765	1,122	1,400	2,099	Disposal/(purchase)	0	0	0	0
% change Y/Y	-20.0%	46.6%	24.7%	50.0%	Net Interest	0	0	0	0
Tax	-147	-321	-313	-451	Free cash flow	-2,032	-2,463	-43	1,337
as % of EBT	19.2%	28.6%	22.4%	21.5%	Equity raised/(repaid)	-	-	-	-
Net income (reported)	620	818	1,103	1,664	Debt raised/(repaid)	1,156	1,290	500	0
% change Y/Y	-19.3%	32.0%	34.8%	50.9%	Other	340	41	17	17
Core net profit	620	818	1,103	1,664	Dividends paid	0	0	0	0
% change Y/Y	-19.3%	32.0%	34.8%	50.9%	Beginning cash	3,453	3,059	2,134	2,948
Shares outstanding	143	143	143	143	Ending cash	3,059	2,134	2,948	4,266
EPS (reported)	4.33	5.72	7.71	11.63					
% change Y/Y	(19.3%)	32.0%	34.8%	50.9%					
Balance sheet					Ratio Analysis				
Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E
Cash and cash equivalents	3,059	2,134	2,948	4,266	EBIT Margin	49.0%	51.9%	48.9%	45.6%
Accounts receivable	431	431	431	431	Operating margin	49.0%	51.9%	48.9%	45.6%
Inventories	3	3	3	3	Net margin	50.4%	38.9%	37.8%	35.1%
Others	3,628	3,634	3,583	3,486	Sales growth	23.5%	70.9%	38.7%	62.4%
Current assets	7,121	6,202	6,965	8,186	Net profit growth	-19.3%	32.0%	34.8%	50.9%
Investments	3,212	4,012	4,012	4,012	EPS growth	(19.3%)	32.0%	34.8%	50.9%
Net fixed assets	16,458	18,789	19,670	20,364	Interest coverage (x)	-	-	8.26	4.94
Total Assets	26,791	29,003	30,647	32,563	Net debt to total capital	16.4%	24.3%	21.3%	15.2%
Liabilities					Net debt to equity	22.1%	34.2%	30.3%	21.0%
Current Liabilities	1,724	1,804	1,845	2,096	Sales/assets	0.05	0.08	0.10	0.15
Others	244	244	244	244	Assets/equity	1.67	1.72	1.71	1.66
Total current liabilities	1,969	2,049	2,089	2,341	ROE	4.0%	5.0%	6.3%	8.9%
Total debt	6,608	7,898	8,398	8,398	ROCE	2.8%	4.6%	5.6%	8.0%
Other liabilities	0	0	0	0					
Total Liabilities	8,577	9,947	10,487	10,738					
Shareholders' equity	16,048	16,866	17,970	19,634					
BVPS	112.15	117.86	125.57	137.20					

Source: Company reports and J.P. Morgan estimates.

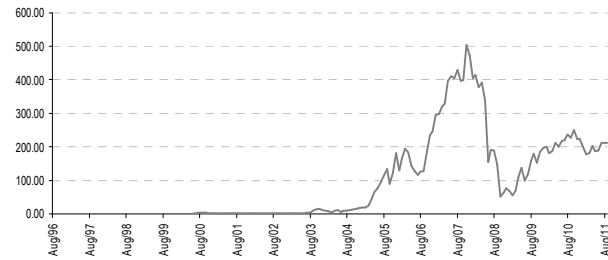
**JPM Q-Profile**  
**Phoenix Mills Ltd. (INDIA / Financials)**

As Of: 29-Sep-2011

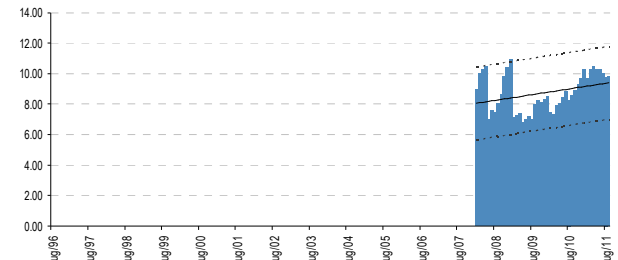
**Global Equity Quantitative Analysis**

Quant\_Strategy@jpmorgan.com

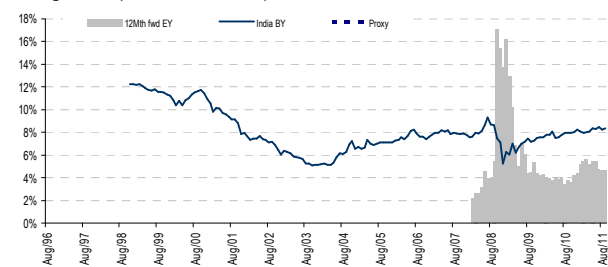
**Local Share Price** Current: **210.90**



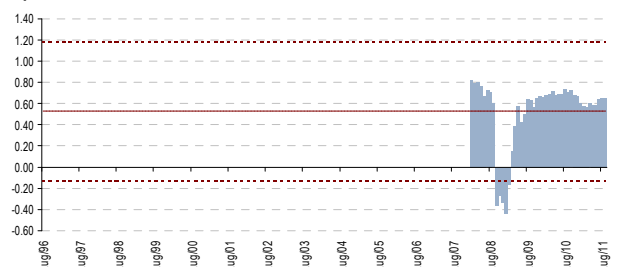
**12 Mth Forward EPS** Current: **9.81**



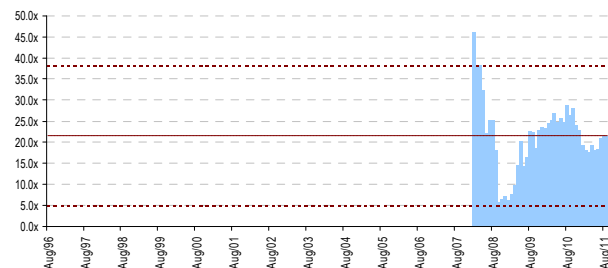
**Earnings Yield (& local bond Yield)** Current: **5%**



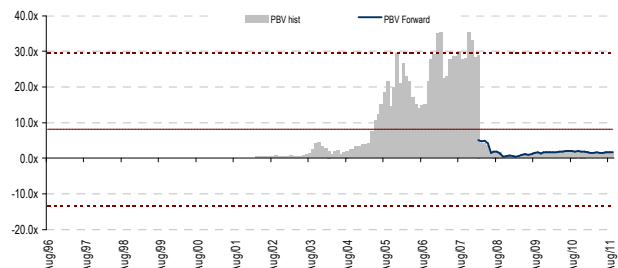
**Implied Value Of Growth\*** Current: **65.12%**



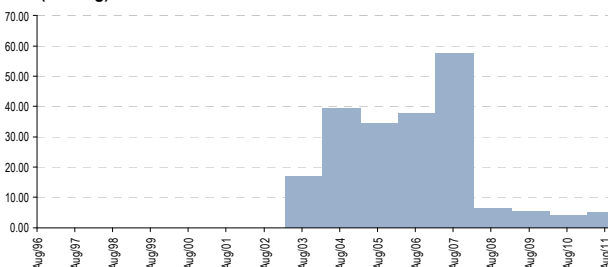
**PE (1Yr Forward)** Current: **21.5x**



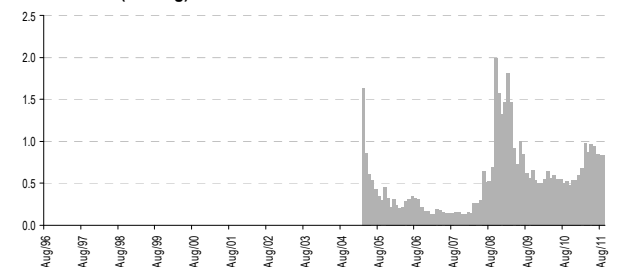
**Price/Book Value** Current: **1.8x**



**ROE (Trailing)** Current: **5.14**



**Dividend Yield (Trailing)** Current: **0.84**



**Summary**

Phoenix Mills Ltd.										As Of:		29-Sep-11			
INDIA		SEDOL		B0SXY97		Local Price:						210.90			
Financials								EPS:						9.81	
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg				
12mth Forward PE	21.49x	5.88	46.20	22.30	21.52	38.15	4.89	-73%	115%	4%	0%				
P/BV (Trailing)	1.83x	0.35	35.23	2.01	8.24	29.67	-13.19	-81%	1826%	10%	351%				
Dividend Yield (Trailing)	0.84	0.00	1.99	0.26	0.38	1.25	-0.48	-100%	137%	-69%	-54%				
ROE (Trailing)	5.14	3.97	57.66	16.90	23.85	61.32	-13.62	-23%	1021%	229%	364%				
Implied Value of Growth	65.1%	-0.44	0.83	0.65	0.53	1.19	-0.13	-167%	27%	0%	-19%				

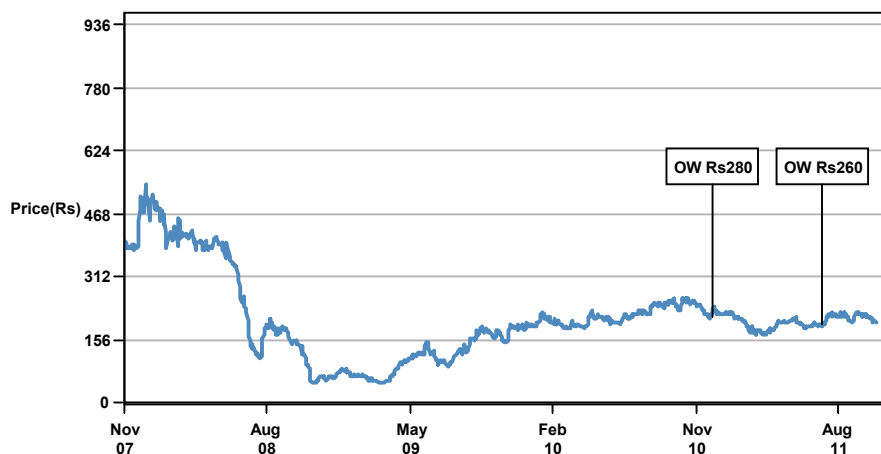
Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

\* Implied Value Of Growth =  $(1 - EY / \text{Cost of equity})$  where cost of equity = Bond Yield + 5.0% (ERP)

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## Important Disclosures

Phoenix Mills (PHOE.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
30-Nov-10	OW	214.70	280.00
29-Jun-11	OW	192.00	260.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Nov 30, 2010.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings: OW = Overweight, N= Neutral, UW = Underweight

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**Coverage Universe: Prithyani, Gunjan:** Godrej Properties (GODR.NS), Phoenix Mills (PHOE.BO), Sobha Developers (SOBH.BO)

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IB clients*	51%	44%	33%
JPMS Equity Research Coverage	45%	47%	7%
IB clients*	70%	60%	52%

\*Percentage of investment banking clients in each rating category.

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