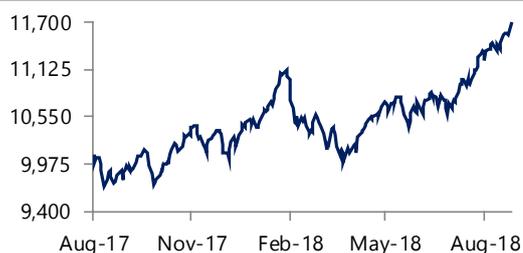


AUGUST 28, 2018

	27-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	38,694	1.2	3.6	10.8	
NIFTY Index	11,692	1.2	3.7	10.2	
NSEBANK Index	28,264	1.5	2.3	7.6	
NIFTY 500 Index	9,959	1.1	4.0	8.1	
CNXMcap Index	19,774	1.2	5.3	5.3	
BSESMCAP Index	16,982	0.7	3.2	(1.0)	
World Indices					
Dow Jones	26,050	1.0	2.4	5.2	
Nasdaq	8,018	0.9	3.6	7.9	
FTSE	7,577	0.2	(1.6)	(2.0)	
NIKKEI	22,800	0.9	1.0	2.0	
Hangseng	22,800	0.9	1.0	2.0	
Shanghai	28,271	2.2	(1.4)	(7.8)	
Value traded (Rs cr)					
	27-Aug	% Chg Day			
Cash BSE	2,830	(12.0)			
Cash NSE	29,975	(11.2)			
Derivatives	783,115	8.8			
Net inflows (Rs cr)					
	24-Aug	MTD	YTD		
FII	(55)	1,089	(2,321)		
Mutual Fund	19	2,697	75,295		
Nifty Gainers & Losers					
	Price	Chg	Vol		
27-Aug	(Rs)	(%)	(mn)		
Gainers					
Hindalco Ind	230	3.7	13.5		
Power Grid	198	3.6	7.9		
ICICI Bank Ltd	340	3.0	28.1		
Losers					
Sun Pharma	622	(1.3)	8.3		
Bajaj Finserv	7,030	(0.3)	0.1		
Dr Reddy's	2,443	(0.2)	0.5		
Advances / Declines (BSE)					
27-Aug	A	B	T	Total	% total
Advances	295	521	63	879	100
Declines	135	505	93	733	83
Unchanged	2	31	11	44	5
Commodity					
	27-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	76.3	0.1	2.7	1.3	
Gold (US\$/OZ)	1,211	0.5	(1.2)	(6.9)	
Silver (US\$/OZ)	14.9	0.6	(4.1)	(9.8)	
Debt / forex market					
27-Aug	1 Day	1 Mth	3 Mths		
10 yr G-Sec yield %	7.9	7.9	7.8	7.8	
Re/US\$	70.2	69.9	68.7	67.4	

Nifty



Source: Bloomberg

News Highlights

- ▶ The Allahabad High Court (HC) refused to provide relief for privately-owned stressed power projects from the Reserve Bank of India's (RBI's) February 12 order. (BS)
- ▶ The government has directed power regulator Central Electricity Regulatory Commission (CERC) to allow changes in any central or state government duty to be passed on to consumers even after the award of bids, a move that may help revive some stuck power projects. (ET)
- ▶ The Narendra Modi government is augmenting its public investment spree in the run-up to 2019 Lok Sabha elections. Capital expenditure for the April-July period has been pegged around Rs 1.11 tn, or 37% of the full-year budgeted estimate of Rs 3 tn. (BS)
- ▶ Petroleum Minister said that the government wants **Gail (India)** to exit its petrochemical business. (BS)
- ▶ **NMDC Limited**, has increased the price for lump ore and iron ore fines by Rs 150 a tonne with effect from August 22. (BS)
- ▶ SBI Caps has worked out a bailout package for Gujarat State Petroleum Corporation (GSPC), where the **State Bank of India** is one of the lead bankers. In a presentation outlining the mechanism for loan resolution, it has proposed that the SBI offer a debt of Rs 21 bn to refinance Gujarat State Financial Services (GSFS) Ltd's loan to GSPC. (BS)
- ▶ **SAIL** is considering locations in three states of Gujarat, Andhra Pradesh and Maharashtra to set up Rs 50 bn autograde steel plant in joint venture with ArcelorMittal. (ET)
- ▶ **Zee Entertainment Enterprises** has decided to turn all its free-to-air (FTA) channels into pay channels. (ET)
- ▶ **Escorts** said it is setting up a joint venture (JV) with Japan's Tadano to manufacture rough terrain and truck mounted cranes in the country. (ET)
- ▶ The National Company Law Tribunal (NCLT) ordered the liquidation of **Lanco Infratech**, after the infrastructure firm's committee of creditors rejected a revised resolution plan from Thriveni Earthmovers. (ET)
- ▶ **Reliance Communications (RCom)** has sold its optic fibre and related assets to Reliance Jio for Rs30 bn, marking another step in the beleaguered telco's efforts to reduce debt. (ET)

What's Inside

- ▶ **Company Update:** The Phoenix Mills Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

Stock Details

Market cap (Rs mn)	:	91270
52-wk Hi/Lo (Rs)	:	732 / 452
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	143,060
Shares o/s (mn)	:	153

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	16,198	17,755	18,684
Growth (%)	(11.0)	9.6	5.2
EBITDA	7,774	8,645	9,254
EBITDA margin (%)	48.0	48.7	49.5
Net profit	2,422	2,746	3,149
EPS (Rs)	15.8	17.9	20.6
Growth (%)	27.0	13.4	14.7
BVPS (Rs)	186.2	201.0	218.4
DPS (Rs)	2.6	2.6	2.6
ROE (%)	9.6	9.3	9.8
ROCE (%)	8.9	8.8	9.5
P/E (x)	37.8	33.3	29.0
EV/EBITDA (x)	16.0	14.3	13.4
P/BV (x)	3.2	3.0	2.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	62.8	62.8	62.8
FII	28.8	29.2	29.8
DII	3.1	3.7	2.8
Others	5.3	4.4	4.6

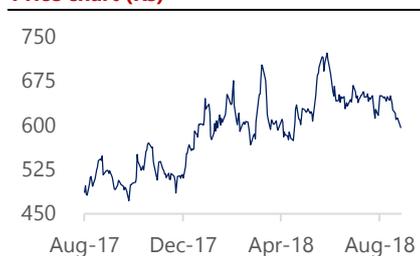
Source: Company

Price Performance (%)

(%)	1M	3M	6M
The Phoenix Mills	(4.8)	(15.5)	1.9
Nifty	3.7	10.2	10.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

THE PHOENIX MILLS LTD

PRICE RS.597

TARGET RS.707

BUY

- Strong growth in rentals to keep revenue growth strong going forward.
- Company has closed 4 acquisitions which include land parcels in Bangalore, Ahmedabad, under construction retail assets in Lucknow and Indore between April-July 2018.
- Owing to adequate upside, we upgrade the stock to BUY from ACCUMULATE earlier.

Key Highlights about the company

Strong performance in Q1FY19

Performance of the company during Q1FY19 was in line with our estimates. Rental growth was driven by the strong operational performance of Market City malls - PMC Chennai, PMC Pune & PMC Mumbai as well as High Street Phoenix & Palladium. Commercial and hospitality segment also registered 35%/6% YoY growth respectively led by improvement in rentals and ARR's.

High Street Phoenix performance was led by rental improvements as North Sky zone and new F&B outlets which has an area of 50,000 sq ft comprising of nearly 13 retailers has started contributing towards improvement in rental income. Average rentals improved 20% YoY and stand at nearly Rs 387 per sq ft per month for HSP.

For Chennai market city, category changes in the retail mix had a positive impact on the rental income of the company and average rentals were up by 10% YoY to Rs 137 per sq ft per month. Performance of Bengaluru market city was impacted by state elections and commencement of metro construction near the property but is now expected to improve going forward. Pune market city rentals were also up by 7% YoY and Kurla market city has continued with strong performance during Q1FY19 with 9% YoY improvement in rentals.

Commercial revenues were up by 35% YoY led by increased contribution from Art Guild House and hospitality revenues improved by 6% YoY led by improvement in ARR's.

Lease renewals expected in coming years

Out of the total lease renewals, nearly 60% of High Street Phoenix and Palladium in Mumbai and PMC Pune and 51% of PMC Mumbai are likely to come for renewals between FY19-21. High Street Phoenix and Palladium has 19%/25%/16% renewals expected in FY19/20/21 respectively. Pune market city is likely to see 17%/19%/24% lease renewals during Fy19/20/21 respectively while Kurla market city is likely to see 11%/8%/32% lease renewals during Fy19/20/21 respectively. Bangalore market city lease renewals for nearly 3%/6%/27% of the area are likely to come during FY19/FY20/21 respectively while for Chennai market city, lease renewals of 5%/2%/18% are likely to come during FY19/20/21 respectively. These renewals are likely to aid rental growth for the company.

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Acquisition of new land parcels to aid growth in long term

During Q1FY19, PML has closed 4 acquisitions which include land parcels in Bangalore, Ahmedabad, under construction retail assets in Lucknow and Indore between April-July 2018 which is in line with its growth strategy of increasing retail led mixed use development area going forward. Together with Wakad, Pune, the total under development retail leasable portfolio has moved up to 4.6mn sq ft. Along with the development potential of 4.6mn sq ft, these assets have an additional leasable potential of 3.3-3.4 mn sq ft to be developed over long term. These assets are likely to be operational between FY21-23.

Ahmedabad land has a development potential of 0.6 mn sq ft located at Thaltej on the Sarkhej-Gandhi (SG) Highway. This area includes prime affluent residential and commercial catchments such as Vastrapur, Prahlad Nagar, Bodakdev, Jodhpur, Navrangpura, Ambawadi, Satellite Road. During 2017, 86% of the office market supply in Ahmedabad was added in this micro market along SG Highway. PML will design, lease and manage the asset, and earn a fee for these activities.

For Lucknow acquisition, the development potential of 1mn sq ft with a proposed store count of 300 will be spread over four levels. For the project, 90% of the RCC work is complete and Phoenix Marketcity Lucknow is expected to begin operations during FY21. Site is also close to key landmarks in the city such as Taj, Lucknow, L'école Du Monde, Amity University, the High Court of Lucknow among other prestigious educational and government institutions. Organizations in Gomti Nagar close to the site include TCS, SONY, NTPC, BHEL, HCL Technologies, UNICEF etc.

For Indore acquisition, the development potential of 1.1 mn sq ft is located on Mumbai-Agra National Highway in Indore. Indore is a Retail hub of Madhya Pradesh with consumers from feeder towns such as Ujjain, Dewas, Sehore, Ratlam etc. For the project, 80% of the RCC work is complete and Phoenix Marketcity Indore is expected to begin operations in late FY21.

Recent acquisitions

Project	Partnership / JV / owned	Land Size	Development Potential	Land Acquisition Cost	Comments
Pune	ISML – alliance with CPPIB (PML stake: 51%)	15 Acres	1.6 msf (1 msf retail)	Rs. 1.94 bn	PML's second MarketCity mall in Pune. Expect operations to commence during FY23
Bengaluru		13 Acres	1.8msf (1 msf retail)	Rs. 6.99 bn	PML's second MarketCity mall in Bengaluru. Expect operations to commence during FY23
Indore		19 Acres	1.1 msf retail	Rs. 2.58 bn	Acquired under-construction retail development. Expect operations to commence during FY21
Ahmedabad	50:50 JV with BSafal group	5.2 Acres	0.6 msf retail	Rs. 3.40 bn	Formed a 50:50 JV with BSafal group. Expect operations to commence during FY22
Lucknow	100% owned	13.5 Acres	0.9msf retail	Rs. 4.70 bn	Acquired under-construction retail development. Expect operations to commence during FY21

Source: Company

Borrowings to move up going forward

Company envisages Rs 45 bn of capex to be spent to develop these assets over next 3-4 years – out of which, it has already spent Rs 20 bn on land acquisition cost and remaining Rs 25 bn is to be spent over 3-4 years with a mix of debt of Rs 22 bn and equity of Rs 3 bn. Once these assets become operational, it expects a total rental income of Rs 5.6 bn on stabilization of these assets.

Financial outlook

Revenue growth going forward is likely to be led by rental renewals and improvement in commercial and hospitality revenues. We maintain our estimates and expect revenues to grow at a CAGR of 7.4% between FY18-20.

Operating margins improved during the quarter on YoY basis but were impacted by fit outs going on at HSP which led to lower CAM charges. Going forward, we expect operating margins of 48.7%/49.5% for FY19/20 respectively.

We maintain our estimates and expect net profits to grow at a CAGR of 14.5% between FY18-20.

Valuation and recommendation

At current price of Rs 597, stock is trading at 33.3x and 29x P/E and 14.3x and 13.4x EV/EBITDA on FY19/20 consolidated estimates respectively. We continue to remain positive on the company and maintain our price target of Rs 707 based on sum of the parts valuation on FY20 estimates. Owing to adequate upside from current levels, we upgrade the stock to **BUY** from ACCUMULATE earlier.

Sum of the parts valuation

FY20	Phnx Stake (%)	Area (mn sq ft)	Value (Rs mn)	Per share
High Street Phoenix	100%	0.9	56,039	367
Phase IV @ HSP	100%	0.25	7,000	46
Market cities				
Pune	100%	1.13	7,517	49
Kurla	100%	1.14	3,597	24
Bangalore (East)	100%	0.98	10,339	68
Chennai	50.01%	1	6,680	44
Bangalore (W)-Residential	100%	1.8	3,562	23
CPPIB	51%	1x	16,620	55
Big Apple	100%		1,203	8
Hospitality	73%		3,716	24
Total				707

Source: Kotak Securities – Private Client Research

Company background

Phoenix mills is a key developer and manager of prime retail-led assets in city centers, with a gross portfolio of 17.5 million sq. ft spread over 100+ acres of prime land in key gateway cities of India. It has 8 Malls spread over 6 mn ft in 6 major cities along with commercial centres in Mumbai with rent generating leasable area of 1.16 mn sq ft. Residential projects under development have 3.72 mn sq ft of saleable area. It also has 2 Hotel (588 Keys) managed by renowned global operators in its portfolio.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	18,246	16,198	17,755	18,684
% change YoY	3.0	(11.2)	9.6	5.2
EBITDA	8,469	7,774	8,645	9,254
% change YoY	8.0	(8.2)	11.2	7.0
Other Income	472	556	556	556
Depreciation	1,953	1,983	2,258	2,370
EBIT	6,988	6,347	6,943	7,440
% change YoY	9.0	(9.2)	9.4	7.2
Net interest	4,230	3,476	3,650	3,601
Extra ord exp	-	-	-	-
Profit before tax	2,758	2,871	3,294	3,839
% change YoY	74.0	4.1	14.7	16.6
Tax	858	758	856	998
as % of PBT	31.1	26.4	26.0	26.0
Profit after tax	1,900	2,113	2,437	2,841
Minority interest & associates	(10)	(308)	(308)	(308)
Adjusted Net income	1,910	2,422	2,746	3,149
% change YoY	128.0	26.8	13.4	14.7
Shares outstanding (m)	153.1	153.1	153.1	153.1
EPS (reported) (Rs)	12.5	15.8	17.9	20.6
CEPS (Rs)	25.2	28.8	32.7	36.0
DPS (Rs)	2.40	2.60	2.60	2.60

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	6,997	6,656	7,252	7,749
Depreciation	1,953	1,983	2,258	2,370
Change in working capital	5,309	2,891	(2,116)	(368)
Chg in other net current assets	(721)	6,052	478	-
Operating cash flow	13,539	17,581	7,873	9,751
Interest	(4,230)	(3,476)	(3,650)	(3,601)
Tax	(858)	(758)	(856)	(998)
Cash flow from operations	8,451	13,347	3,366	5,152
Capex	(3,181)	(15,027)	(2,500)	(4,500)
(Inc)/dec in investments	(2,920)	(3,931)	2,700	2,700
Cash flow from investments	(6,101)	(18,958)	200	(1,800)
Proceeds from issue of equity	0	-	-	-
Increase/(decrease) in debt	(2,894)	5,689	(2,700)	(3,500)
Proceeds from share premium	131	-	-	-
Dividends	(405)	(442)	(479)	(479)
Cash flow from financing	(3,168)	5,247	(3,179)	(3,979)
Opening cash	1,631	812	449	836
Closing cash	812	449	836	208

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	812	449	836	208
Accounts receivable	1,470	1,292	1,514	1,593
Inventories	9,455	6,615	8,807	9,269
Loans and Adv & Others	3,671	3,730	3,794	3,817
Current assets	15,408	12,086	14,950	14,887
Other non current assets	1,127	1,997	1,997	1,997
LT investments	5,260	9,191	6,491	3,791
Net fixed assets	48,656	61,700	61,942	64,072
Total assets	70,452	84,973	85,380	84,746
Payables	3,449	3,381	3,743	3,939
Others	1,926	1,396	1,396	1,396
Current liabilities	5,375	4,777	5,139	5,335
Provisions	843	1,101	1,580	1,580
LT debt	36,669	42,359	39,659	36,159
Min. int and def tax liabilities	5,693	8,219	8,219	8,219
Equity	306	306	306	306
Reserves	21,566	28,211	30,477	33,147
Total liabilities	70,452	84,973	85,380	84,746
BVPS (Rs)	142.9	186.2	201.0	218.4

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	46.4	48.0	48.7	49.5
EBIT margin (%)	38.3	39.2	39.1	39.8
Net profit margin (%)	10.5	15.0	15.5	16.9
Receivables (days)	42.6	31.1	31.1	31.1
Inventory (days)	227.0	181.1	181.1	181.1
Sales/assets(x)	0.4	0.3	0.3	0.3
Interest coverage (x)	1.7	1.8	1.9	2.1
Debt/equity ratio(x)	1.8	1.6	1.4	1.2
ROE (%)	9.1	9.6	9.3	9.8
ROCE (%)	10.6	8.9	8.8	9.5
EV/ Sales (x)	6.7	7.7	7.0	6.6
EV/EBITDA (x)	14.4	16.0	14.3	13.4
Price to earnings (x)	47.8	37.8	33.3	29.0
Price to book value (x)	4.2	3.2	3.0	2.7
Price to Cash Earnings (x)	23.7	20.8	18.3	16.6

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** - We advise investor to subscribe to the IPO.
- RS** – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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