

Phoenix Mills Ltd.

INR 166

A Comeback From Ashes**ACCUMULATE**

Gateway to Prosperity

Oct 23, 2009

Company Background

Phoenix Mills Ltd (Phoenix), incorporated in 1905 as a textile manufacturing company who functioned its textile mills for more than eight decades, forayed into growing Indian real estate market & leased the commercial space in building named Phoenix House on the textile mill land at Lower Parel, Mumbai. Phoenix began its journey with High Street Phoenix (HSP), a prototype of the Market City concept developed in Mumbai. HSP is a lifestyle centre with optimized mix of retail, entertainment, & commercial tenants to cater to all the requirements of consumers. Market Cities are large sized projects in excess of 2.5 mn sqft of area in prime locations & feature retail stores, hypermarkets, multiscreen theatres, entertainment zones, food courts & hotels.

Investment Rationale**➔ Financial performance**

Phoenix Mills Ltd came out with a decent results during 1QFY10, with Net Sales reported an increase of 20% to INR 248 mn as against INR 207 mn, while its Net Profit was at INR 153 mn vs INR 110 mn an increase of 39%. Other Income too joined the rally with an increase by 232% to INR 53 mn. Its EBIDTA margin was at 97.44% whereas its Net Profit margin at 62%.

➔ Market Cities to perform well

Phoenix is working on the concept of Market Cities. It refers to multi use premise for retail, commercial, entertainment as well as hospitality needs. With the global economy near to its recovery the footfalls are likely to be increased & would help the company to perform well in terms of revenue in the near future.

➔ HSP provides revenue visibility

Nearly 99% of lease revenues are been contributed by HSP. Out of 0.5 mn sqft leased area, anchor tenants occupy 40% & contribute a maximum share to the Phoenix leased revenues. HSP's revenues are expected to increase in the coming quarters after an increase the leased areas to 0.90 mn sqft.

➔ Pan-India presence

In order to increase its footprints, Phoenix has acquired 40% stake in EWDPL & 60% stake in Big Apple Real Estate Pvt Ltd, where the first builds retail led mix use development centres in Tier II cities & the later has malls in Tier III cities. Thus the company has grown both organically & inorganically by diversifying into a number of geographies. This strategies has helped it to gain a pan india presence.

➔ Enters into Hospitality sector

Phoenix has strategic tie-ups with big names in the hotel space like Shangri-La & Marriot, which would help the company in its operations & management of hotel properties.

➔ Diversifying its business risk

Phoenix being into real estate sector, leased its properties to the companies engaged into retail, entertainment & commercial segments. The company has even entered into hospitality sector along with partnership with international players, thus diversifying its revenue mix into different sector.

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Info Codes

Reuters	: PHOE.BO
Bloomberg	: PHNX@IN
NSE	: PHOENIXLTD
BSE	: 503100

Market Data

52 Wk Range (INR)	: 192 / 44
Shares in Issue (mn)	: 144.85
Mkt. Cap (INR bn)	: 24.33
BSE 2 Wk Avg Vol	: 168436

Share Holding Pattern (%)

Promoters	: 65.92
MFs, FIs & Banks	: 1.66
FIIIs	: 22.37
Others	: 10.05

Investment Theme

Phoenix, a real estate player has entered into hospitality sector to diversify its revenue mix & also to gain from this sector which is widely growing in India. The company has recently acquired a stake in EWDPL & Big Apple, which would help to increase its footprints through the way of Pan-India Presence. HSP is working on the concept of Market Cities, which would increase its leased space which it provides to anchor tenants & others. The company with other international players is likely to build 400 room 5 star hotel, which be operated & managed by Shangri-La brand with an estimated cost of INR 6 bn & also 5 Market Cities Hotels.

Working hard for more space

➔HSP on expansion mode

HSP at Lower Parel, Mumbai is the most sought out & largest mall in the South Mumbai Central Business District, which has the highest footfall (expected an average of 50,000 persons per day) & 100% occupancy. Phoenix will complete development of ~17.3 acres in 4 phases with the total developable area of 3.1 mn sqft by FY11. Phoenix derives around 99% of its revenues from leasing its 0.5mn sqft of HSP. The leased portfolio includes a diverse mix of tenants in the retail, commercial & entertainment space. Giant players like Future Group comprising Big Bazaar & Pantaloon & Lifestyle segments, occupy 40% of the total leased area & they contribute maximum share for its revenues. It is expected that at the end of FY10, leasable area at HSP is expected to ramp up to 0.9 mn sqft (up by nearly 60%). Retail & commercial space would be 300,000 sqft & 45,000 sqft of the incremental space. However the rentals of existing leased space would increase, as it is to be hiked by 15% every 3 years.

HSP - Phase wise development summary

Phase	Type	Area (mn sqft)	Plan summary
1	Residential	0.35	160 units developed 142 sold out
1	Retail & Commercial	0.25	Likes of Barista, Big Bazaar, McDonalds, Domino's Pizza
1	Retail	0.15	-
2	Retail & Ent	0.30	High end branded stores like Marks & Spencers, Lacoste Pepe, Nike, Sky Zone etc
3	Retail	0.05	Grand Galleria, including Crozma, Bosch, CCD
3	Palladium	0.35	Operational by Oct 09
3	Retail & Ent	0.05	Sold out to PVR
4	Planning under way	0.17	-
	Total	1.67	

(Source:Company)

➔Hospitality Projects

Phoenix is developing a 400-room five star hotel at HSP, in which it holds 51% stake, which to be managed & operated under the Shangri-La brand. The total project cost is estimated to be around INR 6.0 Bn out of which the construction component is INR 3.4 Bn. However this projects also includes 5 market city hotels with tie ups with the world's renowned operators. The Shangri-La Hotel, which is to be developed by Phoenix through its subsidiary, is to be operated by a Singapore based hotel management company, Shangri-La for a period of 20 years. According to the agreement, a fee of 1.25% of Gross Operating revenues during the first 3 years & 1.75% thereafter, along with an incentive of management fee of 5% of the Gross Operating Profit during the first 3 years would be received.

Name	Area(Sq ft)	Architect & Designer	Type	Keys
Kurla	150,000	Benoy-UK HK	5 Star	150
Pune	310,000	Benoy-UK HK	5 Star	320
Bangalore	300,000	Benoy-UK HK	5 Star	250
Chennai	280,000	Rockwell-US	5 Star	200

(Source:Company)

Business Overview

Phoenix is a leading developer & operator of iconic large format retail-led mixed use developments, namely Market Cities which are large seized projects in prime locations which helped it to unlock huge real estate value & feature retail stores, hypermarkets, multiscreen theatres, entertainment zones, food courts & hotels. The company began its journey with High Street Phoenix (HSP), a prototype of the Market City concept developed in Mumbai providing space for retail, entertainment and commercial tenants which cater to all requirements of consumers. During the year, HSP added a new shopping centre in its kitty. The company has also entered into hospitality sector under the brand name Shangri-La & has signed an agreement with Pallazzio Hotel & Leisure Ltd (a wholly owned subsidiary of Phoenix Mills Ltd) to manage Shangri-La. Development for the same is under its ways & over 400 keys hotel is expected to commence its operation in Dec 2010. During the last year, the company had acquired stake in Entertainment World Developers Pvt. Ltd (EWDPL) &

Big Apple Real Estate Pvt. Ltd to enter into retail led development in Tier-II cities under the brand Treasure Island & Phoenix United respectively. However the company expects that it is well poised to leverage its strength as a retail-led consumption developer across the country including Tier II & Teir III cities with its partners EWDPL & Big Apple & would emerge as a strong player in the growing Indian environment.

➔ Acquisition of EWDPL would help to enter into Tier II

In order to increase footprints in Tier II cities, the company has made strategic investments in EWDPL & Big Apple. In 2008, Phoenix acquired around 40% stake in EWDPL to build retail led mix use development centres in Tier II city-centric retail mall & mixed use developer & operates under the Treasure brand. Already 2 malls are operational at Indore with the leasable area of 0.60 mn sqft with having an occupancy rate of 90%. Three more malls would be operational by the beginning of FY11 at Nanded, Ujjain & Raipur. The company intends to operate mainly in 4 formats.

Particulars	Types
Treasure Market City	Multi user integrated retail development
Treasure Island	Retail
Treasure Town	Residential
Treasure Biz Park	IT Parks, Warehouse

EWDPL is currently developing around 14 projects in various cities across India like Indore, Raipur, Jabalpur, Ujjain, Bhilai, Nanded, Udaipur, Chandigarh, Amravati etc.

Ongoing Projects of EWDPL

SPV Name	Location	Area	Expc. Date
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FDI Projects

Indore Treasure Mkt City	MR-10	19.52	Jun-11
Raipur Treasure Islands	Raipur	7.64	Dec-09
Jabalpur Treasure Island	Jabalpur	3.21	Jun-10
Bhilai Surya Treasure Island	Bhilai	4.87	Dec-10
Udaipur Treasure Market City	Udaipur	18.89	Jun-11
Udaipur Landmark Treasure Town	Udaipur	14.99	Dec-10
Treasure World Developers	Kanadia	93.00	-
Indore Treasure Town	Bijalpur	129.81	-
Annapoorna Entert World Dev	Trivendrum	5.00	-
Ramayana Merchants	Raipur	47.50	Jun-11
Cassandra Realty	MR-10 IT	39.16	-
Marval Mall Developers	Baroda	2.89	Dec-11
Sub Total		391.51	19,653,957

Non - FDI Projects

Nanded Treasure Bazaar	Nanded	2.70	Aug-09
Ujjain Treasure Bazaar	Ujjain	2.76	Oct-09
Naman Mall Management	Indore	1.70	Jun-09
Amravati Treasure Bazaar	Amravati	2.75	-
Sub Total		9.91	756,394
Grand Total		401.42	20,410,351

(Source:Company)

➔ Acquires 60% in Big Apple Real Estate

In Dec 07, Phoenix bought around 60% stake in Delhi Based Big Apple Real Estate Pvt Ltd, the owners of United Malls Brand in UP. The stake was acquired through the swap of Phoenix's stake in its planned project in Agra & an additional investment of INR 800 Mn. Big Apple will develop malls across North India under the Phoenix United brand, particularly in Lucknow, Agra, Varanasi & Bareilly.

Its Key Developments

HSP, covers approximately 3 mn sqft of space & houses retail, entertainment, commercial & residential complexes with parking space & still under expansion it already attracts almost 12 mn shoppers per year. Consisting of four phases of development, the third phase is nearing completion, while Phase III will have a five-star Deluxe hotel Shangri-La, a luxury mall called Palladium, a parking lot & a health club besides the just opened PVR cinema & Grand Galleria. Phase IV of the mall, will relocate Big Bazaar, further increase the parking & have more stores.

Grand Galleria:-

This project consists of a new shopping complex which has been added during the current year. The centre is spread over approx 60,000 sqft in two floors & houses a variety of fashion apparels & accessories, home décor & furnishings, bath & body, leisure, travel & outdoor merchandise in addition to a seven-screen PVR multiplex which started in Dec 2008.

Shangri-La:-

Another key development of Phoenix, is the addition of a five-star Deluxe hotel, with the Shangri-La chain of hotels. Spanning approximately 0.70 mn sqft, the hotel is slated to have over 400 keys. The construction activity has reached the 28th floor & closure of civil work is targeted by September 2009, while revenue is expected to begin from Dec 2010.

Palladium:-

This is a five level high-end exclusive luxury mall & is expected to open in October 2009. Covering a retail space of approximately 0.30 mn sqft, the mall will house various international brands. It will have value additions such as personal shopping assistance, dedicated & ample parking area, forex counters & banking, VIP lounges, luxury salons, upscale eateries & baby care facilities.

Projects of Big Apple

Project	Location	Area(msf)	Status
Phoenix United	Lucknow	0.6	Dec 09
Phoenix United	Agra	0.9	Not Commenced
Phoenix United	Varanasi	0.6	Land not acquired
Phoenix United	Bareilly	0.5	Just started

(Source:Company)

► Strategic plans to launch Market Cities

Phoenix plans to launch Market Cities in Mumbai(Kurla), Pune, Bengaluru & Chennai. This Market Cities are iconic large format retail-led mix use developments in city centric locations. With nearly 7.7 mn sqft of retail & commercial area under development across India, the first of the above projects would become operational in the last quarter of FY11 in Mumbai(Kurla) followed by Pune, Bengaluru & Chennai.

Market City	Expected date of Completion
Mumbai	May-June 2010
Bengaluru	July-Sep 2010
Chennai	Jan-March 2011
Pune	April-June 2011

Phoenix is likely to receive a helping hand from other promoters too, for all the above projects like HBS Realtors & Horizon Venture Capital for Mumbai & Bengaluru while Kshitij Investments & Sharyans Resources for Chennai. The company holds varying degree of interest in all the projects from 26% in Mumbai Project to around 51% in Pune Project. However the estimated expenditure for these projects are expected to be around INR 19 bn.

Details of Promoters Stake

Market City	Promoter's Stake		
	Phoenix	HBS	Sharyans
Mumbai-Kurla	26%	11%	NA
Bengaluru	28%	11%	3%
Pune	51%	NA	5%
Chennai	33%	NA	32%

However the company expects that it is well poised to leverage its strength as a retail-led consumption developer across the country including Tier II & Tier III cities with its partners EWDPL & Big Apple & would emerge as a strong player in the growing Indian environment.

Key Financials

Year Ended Mar 31 st	FY 07	FY 08	FY 09
Revenue (INR mn)	2243.9	2276.8	1402.4
Rev. growth (%)	292.84	1.47	(38.40)
EBITDA (INR mn)	11971.5	1991.3	1100.9
Net profit (INR mn)	1641.9	1686.5	782.2
Shares outstanding (mn)	12.25	135.7	144.85
EPS (INR)	134.0	12.4	5.4
EPS growth (%)	884.35	(90.73)	(56.55)
P/E (x)	2.4	30.4	13.2
EV/ EBITDA	21.7	258.4	94.0
ROCE (%)	49.57	15.84	4.87

(Contd....)

Phoenix has partnered with EWDPL & Big Apple Real Estate to build retail-led mixed use development centres in Tier II cities through this partnership. EWDPL is a Tier II city centric retail mall & a mixed use developer & operates under the 'Treasure Island' brand. Big Apple together with Phoenix Mills will develop malls by the brand name 'Phoenix United' across North India, particularly in UP.

Indore Central, Indore:-

This development of 0.28 mn sqft is located in the heart of the city at RNT Marg & has commenced its operations from May 29, 2009. The Central format is captivating the serious shopper with its seamless sophistication & access. Apart from retail space, it also offers approximate 58,000 sq ft of commercial space.

Treasure Bazaar, Nanded:-

This is the first convenience mall of Nanded as well as the first mall in entire Marathwada region to house a multiplex & a star category hotel of 57,000 sq ft. This 0.25 mn sqft mall will commence its operations in October 2009.

Phoenix United, Lucknow:-

This shopping mall covers approximately 0.36 mn sqft & features 3 levels of car parking of 0.22mn sqft. Within this impressive structure, there will be ample room for large anchors, vanilla shops, a hypermart & a family entertainment centre with a modern food court. In addition, it will also have specialty restaurants, entertainment space & a six screen multiplex. This total development of 0.58mn sqft is strategically located in LDA colony, Kanpur Road, in the heart of Alambagh, one of Lucknow's most prominent growth corridors.

Financial Statements

Income Statement

(INR mn)

Year end Mar 31 st	FY 07	FY 08	% Chg	FY 09	% Chg
Operating Income	2228.0	2035.8	(8.63)	901.5	(55.72)
Other Income	15.9	241.0	1415.72	500.9	107.84
Change in Stocks	0.0	(0.4)	NA	0.6	(250.00)
Raw Material Con.	7.6	6.7	(11.84)	6.7	0.00
Employee Exp.	35.8	41.1	14.80	54.7	33.09
Excise	0.0	0.0	NA	0.0	NA
Other Exp.	229.0	237.3	3.62	240.7	1.43
Operating Exp.	272.4	285.5	4.81	301.5	5.60
Operating Profit	1955.6	1750.3	(10.50)	600.0	(65.72)
Total Interest	37.8	41.8	10.58	49.4	18.18
Gross Profit	1933.7	1949.5	0.82	1051.5	(46.06)
Net Dep.	72.7	72.7	0.00	83.8	15.27
Total Taxation	219.1	190.3	(13.14)	185.5	(2.52)
Net Profit/Loss	1641.9	1686.5	2.72	782.2	(53.62)

4 Years Balance Sheets

(INR mn)

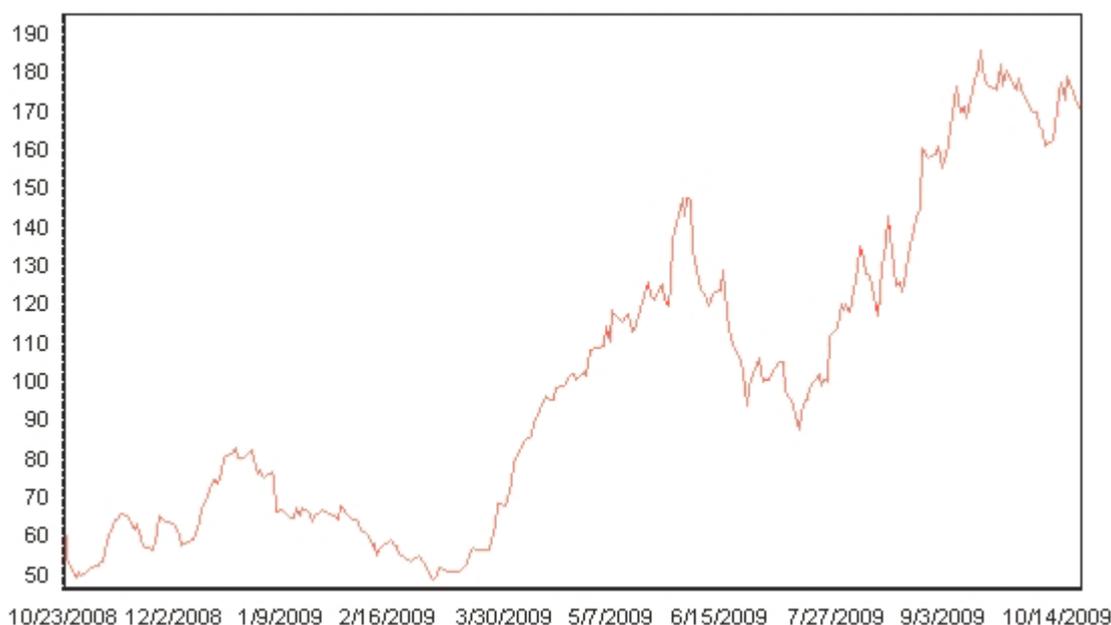
Balance Sheet as on 31 st	Mar 2006	Mar 2007	Mar 2008	Mar 2009
SOURCES OF FUNDS	1309.3	5491.8	16325.9	16540.9
Equity Share capital	122.5	122.5	271.4	289.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	263.8	1862.8	13986.9	14599.6
Loan Funds	912.6	1823.9	1551.5	1651.6
Unsecured Loans	10.4	1682.6	497.8	0.0
USES OF FUNDS	1309.3	5491.8	16325.9	16540.9
Gross Block	1559.4	1662.7	1921.5	2485.2
Less : Revaluation Reserves	111.6	110.7	109.7	108.8
Less : Accumulated Depreciation	249.2	322.8	364.5	446.7
Net Block	1198.6	1229.2	1447.3	1929.7
Capital Work in Progress	260.6	881.7	1489.7	2673.3
Investments	65.0	1810.4	9314.8	7963.5
Current Assets	546.3	2080.6	4999.6	5108.0
Less : Current Liabilities	761.8	510.7	925.5	1133.6
Net Current Assets	-215.5	1569.9	4074.1	3974.4
Misc. Expenses not written	0.6	0.6	0.0	0.0
NOTE				
Bk Val Unquoted Investments	64.6	1810.3	1965.5	4192.2
Mkt Val. Quoted Investments	4.3	6.2	64.5	19
Contingent Liabilities	46.8	624.2	296.2	1034.7
Dividend (%)	20	30	50	50

Quarterly Income Sheets

(INR mn)

Quarter Ended	Sep 08	Dec 08	Mar 09	Jun 09
Net Sales	234.3	220.9	214.2	247.9
Cost Of Sales	12.1	7.4	22.0	20.4
Operating Profit	222.2	213.5	192.2	227.5
Recurring Income	321.9	61.8	85.3	52.7
Adjusted PBDIT	544.1	275.3	277.5	280.2
Financial Expenses	16.9	9.1	23.5	9.5
Depreciation	17.5	21.0	24.2	24.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	509.7	245.2	229.8	246.7
Tax Charges	80.6	39.4	27.5	54.7
Adjusted PAT	429.1	205.8	202.3	192.0
Non Recurring	0.0	0.0	0.0	0.0
Other Non Cash Adjust	42.4	58.3	61.8	38.7
Net Profit	386.7	147.5	140.5	153.3

52 Week Price Chart



Phoenix (Closing Price)

Risks Associated

Non availability of credit

Availability of credit is the most important factor for the companies engaged in Real Estate sector. The restriction on availability of credit would paralyze the companies ongoing projects or their future growth plans.

Global, Economic & Market factors

Short term reduced rents would affect the profitability of the companies, while economic & market fluctuations are likely to reduce the long term investment plans for the companies. With the economic meltdown in 2008, commercial realty became the worst hit segment in the sector & leased & property rates too fell, thus affecting the margins of the companies.

Prices of raw materials a concern too

Non availability of credits & increasing the cost of the raw materials related to the sector, has tightened their expenditure budgets, leading to new initiatives has been delayed or cancelled.

In a Nutshell

Phoenix basically started its operations as a textile mill company & gradually ventured into real estate development. In 2006, the company announced its plans to develop its first Market City project, High Street Phoenix (HSP), at Lower Parel in Mumbai in four phases, which is likely to provide space for retail, commercial, residential & hospitality at one place. Currently, it has 0.5 mn sqft of leased area & is expected to increase it to 0.9 mn sqft this financial year. The company also intends to build up Market Cities in Mumbai, Pune, Bengaluru & Chennai. Phoenix has recently bought a 40% stake in EWDPL through a combination of cash infusion & merger of certain entities that held equity in EWDPL. Based in Indore. EWDPL concentrates on developing & operating malls under the 'Treasure Island' brand in Tier II cities. In December 2007, Phoenix also bought a 39% stake in Big Apple that owns the United Malls brand in Uttar Pradesh. The company swapped its stake in Market City, Agra & invested INR 800 Mn more to buy its stake. Big Apple is likely to build malls in North India, particularly in Uttar Pradesh, under the brand 'Phoenix United'.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate up to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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