THE PHOENIX MILLS LIMITED

Earnings Conference Call

Q2 FY2019

November 6, 2018

Management:

Mr. Shishir Shrivastava – Jt. Managing Director

Mr. Varun Parwal – Vice President - Finance and Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY19 results conference call of the Phoenix Mills Limited. The company will be represented by Mr. Shishir Shrivastava – Joint Managing Director, and Mr. Varun Parwal – Vice President - Finance and Investor Relations. As a reminder all the participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing * and 0 on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shishir Shrivastava, thank you and over to you sir.

Shishir Shrivastava Good afternoon ladies and gentlemen and thank you for joining the Phoenix Mills Limited Conference call to discuss the Q2 and H1 FY2019 results. May I take this opportunity to wish you all a very happy Diwali and a prosperous new year.

The Phoenix Mills Limited is India’s largest retail-led mixed use developer and operator. And our retail assets across 6 cities are the leading malls in their respective cities. They provide robust and steadily growing annuity income. Additionally, we have annuity assets in commercial offices and also hotels which complement the retail business in the overall mixed-use developments. We also have a marquee luxury residential development in Bangalore.

During the H1 FY2019, all our business has performed well, leading to the consolidated EBITDA growing 11% YOY to Rs. 8,179 million and PAT increasing 45% YOY to Rs. 1,218 million. Let me dive into some of the details of our strong operating and financial performance.

Retail consumption was at Rs. 16.7 billion for Q2 FY19 up 14% YOY. Retail rental income was up by 17% YOY at Rs. 2.4 billion driven by the strong operational performance of High Street Phoenix & Palladium, Phoenix Market City Pune, and Phoenix Market City, Mumbai. Retail EBITDA for the quarter FY19 was up 11%

YOY at Rs.1.98 billion. Our portfolio of commercial assets has also performed well providing a steady stream of increasing annuity income. Rental income from commercial increase to Rs.539 million for the first half of FY19. Art guild house our grey day office space at Kurla Mumbai has reached a trading occupancy of 79%. Our Commercial offices at Phoenix Market City, Pune, the first tower is ready with a leasable area of 0.16 million square feet, and has been 74% leased and will commence generating revenues form the end of the current financial year. The other two towers we will commence construction in Q4 FY19.

Moving on to our financial performance for Q2 FY19 consolidated revenue from operations came in at Rs.4.05 billion, up by 9% YOY. EBITDA was at Rs. 1.98 billion which was up 11% YOY. Consolidated PAT was at Rs. 620 million, up 49% YOY. Our gross debt as on 30th September was at Rs.45.15 billion, up at about Rs.1.25 billion during the quarter, while our average cost of borrowing increased marginally to 9.14%. Our credit ratings and interest coverage across the group remains strong. In particular we would like to highlight that Classic Mall Developers which is the SPV that owns Phoenix Market City Chennai, has been upgraded to AAA status by India ratings during this quarter. We are very focused on creating long term value for our shareholders and judicious capital allocation is an essential element of this goal. We are investing to service India's booming consumption story, as disposable incomes and aspirations rise, and this is being done in an extremely low risk manner. With this we would be happy to take your questions.

Moderator Thank you. Ladies and gentlemen, we will now begin the question and answer session. Anyone wishing to ask a question may please press * and 1 on your touch tone telephone. If you wish to remove yourself from the question use you may press * and 2. Participants are requested to use handsets while asking a question.

The first question is from the line of Puneet Gulati from HSBC. Please go ahead

Puneet Gulati Good afternoon and congratulations on good growth on the mall side. Just trying to understand a few things ahead. On High Street Phoenix, the EBITDA margin seems to be at 80%. How do you see the trajectory going forward and what is likely to drive that?

Shishir Shrivastava In H1 FY19, we have had some expenses in terms of upgrades etc., which has impacted the margins to some extent. But if you look at across the board, in all assets we have generally seen the EBITDA margins closers to the mid-90 %.

Puneet Gulati Correct.

Shishir Shrivastava I expect this to come back to that level in the next probably before the end of this financial year, in the last quarter we should be back at that level.

Puneet Gulati So are the fit outs done now completely?

Shishir Shrivastava Mostly its done. There are some refurbishments in some areas which are ongoing but they are not of very high value.

Puneet Gulati Okay. Secondly, how about the Gujarat Property. Would you be consolidating it or would that be a JV?

Shishir Shrivastava It will be consolidated. Because our ownership is 50%. So, it will help us to consolidate.

Puneet Gulati And also if you can give more colour in terms of progress in the recently acquired projects, how much have we spent so far. You have given good details on your presentation in terms of timeline. But little more granularity in terms of actual spent would be helpful.

Shishir Shrivastava In Indore, Phoenix Market City 2 at Wakad and Phoenix Market City 2 at Hebbal Bangalore between these 3 we have spent about Rs. 1,280 odd crore, which includes the acquisition and the initial expenses. These 3 sit under the JV platform that we have with CPPIB. We continue to have about Rs. 400 odd crores of cash in liquid funds in Island Star Mall Developers. And additionally, the operating mall in Island star continues to generate about Rs. 70 odd crores annually of free cash. So, between these 3 projects and the expansion of Island Star itself we expect to spend close to about Rs. 1,900 Crore in total of which we have spent about Rs.1,280. We expect to spend equity of about Rs. 1,900 crore. So, before we draw down any debt, we intend to fund the initial phases of construction through our equity contribution. Peak debt at any point in time in these 3 assets will be at 57% but by and large we are looking at a gearing of 1:1. Apart from this we have acquired Lucknow, where we have spent about Rs.450 crores in the acquisition and we have commenced with the construction activity at site. Over all I think the overall project cost is about Rs.750 crores including the cost of acquisition. We expect to spend the balance Rs.250 odd crore over the next 18 months. Aside from this we have spent in Ahmedabad, in the acquisition, about Rs. 185 crores as our share. And the other partners have brought in a similar amount. And the balance will get funded by further equity of another Rs.90 crore and then the balance by debt. There again we are not looking at a very high gearing. And in all cases, we are going conservative to the extend where we intend to first fund the construction through the equity component before we start drawing down debt.

Puneet Gulati And in terms of approvals, are all those approvals coming on time, or are you seeing any delays on government agencies?

Shishir Shrivastava So, Wakad, we are expecting the environment clearance which is currently in the final stage. We expect that to come through very soon. And the consent to establish we have already received. We expect to commence construction latest by Q4 FY19. Same time lines in terms of the property that we acquired at Hebbal Bangalore. In fact in Bangalore the environment clearance and the BDA approvals are already in place. We are waiting for the BBMP approvals to commence construction there. In Indore, we are in the process of revalidating the previous approvals, and we would expect that within the next 2 months we should be able to commence construction. Lucknow, Construction is already in progress, all the approvals are in place and we hope that by Diwali next year we should be able to commence operations.

Puneet Gulati Wow! Okay.

Shishir Shrivastava That's a little aggressive target Puneet but I would say that considering the pace of work and stage of construction, it's an achievable target. So, we are pushing our team to deliver on that. But its far ahead of our business plan. Business plan had expected in FY21 that we would commence operations. We hope that this will commence in FY20 itself. One year ahead of time.

Thaltej in Ahmedabad, currently the project is under design development, and then we will go through the approvals process and I would hesitate to give a target date for commencement of construction. But it should be before the end of this financial year.

Puneet Gulati And in terms of your tie ups with Key tenants, has that already been done for all these places?

Shishir Shrivastava Yeah, we are in fact preleasing all of these malls, and you know the initial anchor discussion have all happened, I am not at a liberty to disclose the number, but it is ahead of our business plan across the board. And we have done significant amount of leasing already in terms of LOI.

Moderator Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead

Adhidev Chattopadhyay Good afternoon. First thing is on the Bangalore west project Kessaku. So, what are the plan to ramp up the pace of sales over there. Are you looking to do any activations right now, now that the projects are closer to completions?

Varun Parwal Thanks for your question on this. This is Varun. In One Bangalore West and Kessaku, we are reaching towards the completion of the Kessaku towers and we hope to achieve OC by Q1 of next year. In terms of activation, we are in the process of buying TDR for tower 7, 8, and 9 of One Bangalore West, which between the 3 of them have saleable area of about 0.72 million sq. Ft. And at the same time, we are also progressing for the excavation for these 3 towers. Especially for towers 8 and 9. Wherein we had to commence this excavation activity. For Kessaku, we have only Launched 2 of the towers. At the moment we have 3 other towers which are to be launched and given that it's a luxury premium project, we expect the sales velocity to significantly improve once the asset is completed and people can see the completed product that they will be buying. And in the coming months you should see an improved traction. For both Kessaku and One Bangalore West.

Adhidev Chattopadhyay Sure. Second question is on The St. Regis Hotel. What sort of further scale up in ARR or EBITDA do you expect for the balance of this year or a longer term also may be a couple of years?

Shishir Shrivastava We are already leading our competitive set in terms of occupancy and also in terms of ARR. We expect that the next 3 months the demand is going to certainly be high and also in the coming year in fact, interestingly next year we have a large number of auspicious dates for social events for weddings etc. which is more than double of what was there for this year. So, we are really looking forward to next year's performance there. We believe that there is ample room for an increase in terms of revenue in terms of food and beverage, and Banquets. So, while ARRs and occupancy has reached some kind of a stabilized level considering the city demand, our focus is going to be to improve revenues from F&B and also improve efficiency which will contribute to the EBITDA.

Adhidev Chattopadhyay Okay. And lastly on the High street Phoenix, how do you see the rental income moving on, now that the trading occupancy has gone up.

Shishir Shrivastava So, if we look at High Street Phoenix, in FY19 we have had about 19% renewal schedule. FY20 is going to see 25% coming up for renewal. And FY21 is going to see about 16% coming up for renewals. I have a thing that this is typically we have seen the trend in all of our malls when these contracts come up for renewal, you do see a jump in terms of top line. And one must also recognize that most of the brands which are operating here are already at above the minimum guarantee threshold and contributing their revenue share. So, in terms of renewals we are going to try and see how are Rev share percentage could move up marginally which will impact the gross rental income positively.

Moderator Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.

Abhinav Sinha Hi, with the lease income growth now hitting you know 17% levels where is this headed in the next let's say 3 to 4 quarters. Should it start coming down a bit as such?

Shishir Shrivastava Are you referring to rental income as a percentage of consumption.

Abhinav Sinha No. I am referring to the YOY increase in rental income which was about 17% this quarter and most of the large mall reset are also done, other than HSP.

Shishir Shrivastava But what is interesting is, one has to focus on the consumption growth. And generally excluding High Street Phoenix, one sees that our rental income as a percentage of consumption is somewhere in the region of about 12% to 14%. So, there is, as consumption grows we are going to end up seeing rental income growth. And also 12% to 14% is the range for Marketcity malls while High Street Phoenix is typically at about 15% to 17%. So that is where a mature mall will stabilize at. Also, interestingly across, all our Phoenix Market Cities, In FY 20 and FY21, we are going to see Significant anchors renewals coming up. That will also boost rental income Abhinav.

Abhinav Sinha Double digit sort of growth still looks likely, without the new properties?

Shishir Shrivastava Well let's look at our mature mall, High Street Phoenix and how that has performed over the last 10 years, you will see that there has been a double-digit growth consistently. I don't see any reason why other malls will not follow the same trend.

Abhinav Sinha Secondly, going back to your pre-leasing in the new properties, you mentioned that Lucknow could open in 4 to 5 quarters, so is that one I mean where is that we should expect that to open?

Shishir Shrivastava I would say that the day we open we should be at least leased at about 80% and a trading occupancy of between 60% to 70%. On Opening, that ramps up. Within 3 to 6 months that will ramp up to 80 to 90 percent trading occupancy.

Abhinav Sinha And there is good visibility on, depending on how the pre-leases are tend right now?

Shishir Shrivastava Absolutely.

Abhinav Sinha So again I mean in this property, were there any pre-leases before you guys came in, or?

Shishir Shrivastava Nothing. There was nothing.

Abhinav Sinha and compared to the existing property that you have in Lucknow, how will this look, in terms of lease rental?

Shishir Shrivastava Firstly, the product is very different. This is a million Sq. Ft Phoenix Market City. Our ability to house many of the global brands is high here. So, I would hesitate to give a number here. I think it would be at least at par with Pune, which is Phoenix Market City Pune.

Abhinav Sinha Third and last question I have is on the expansion side, so it seems you are going a bit conservative considering the recent liquidity issues in the market. Does it mean that for now we may not be looking to add any new site? Like say in a short term of 6 odd months you will like to see these liquidity issues

Shishir Shrivastava Let me just answer this question with a little bit of our vision. Because these interim economic impacts cannot disrupt our long-term vision. Our long-term vision is, aside from the Malls that are already under development and will get delivered between FY20 and FY23, there after we intend; our desire is to deliver at least a million Sq. Ft mall space every year thereafter. So, we are not really going conservative. I think we are being very selective in our acquisitions. And at the moment we have enough on our plate, we are trying to focus on the design developments of the malls that are already under development, but we also have our eyes open in specific cities where we believe that there is a huge opportunity, and we would like to have our presence there.

Moderator Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

Kunal Lakhan Thank you. Quickly on the slide 29, if you look at the last 4 to 5 quarters, our consumption growth has been much higher or rather lower than the growth. And in previous quarter, barring the last quarter, and prior to that, the gap was significant. Typically, your rental growth falls in line with your consumption growth in a longer period of time. Do you think the law of averages to catch up and the consumption and rental growth that we are seeing right now could taper down and fall in line with the consumption growth?

Shishir Shrivastava So here is the thing. There is always a bit of a catch up. Rental growth typically in the last 3 years has been much higher than our consumption growth. And this has been on account of the renewals schedule of the last 4 to 6 quarters. So, if you just look at rental as a percentage of consumption in all our phoenix market city malls, it is somewhere in the range of 12% to 14%. And that there is room for that to grow up to 16% to 17%, as these malls mature. So, I would say that, what you are seeing the phenomena right now in the last 7 to 8 quarters of rental growth out pacing the consumption growth its merely a catch-up.

Kunal Lakhan Sure. Fair enough. Secondly, on slide 51 of the presentation. You have highlighted a typical revenue cycle of your mall and how rentals span out and if you look at in your slide you highlighted that you have 6 typically, significant renewals happening. Now my question is like you know, it's almost been 6 years since most of our malls are operational now, the Bangalore, Pune, even Chennai for that matter. And these malls started off at around 80 to 90 buck's rentals back then. Are we seeing a renewal happening at around 160 to 170 plus? Are we seeing this cycle pan out in our existing malls?

Shishir Shrivastava Yes. Firstly, this Revenue cycle that we are referring to in slide 51, is typically for an inline store. Because the anchors are of a much longer tenure. And this is already been achieved. Because we have already crossed the 6th year in all of our operations. If you look at Phoenix market city Pune and Bangalore and the trend there, the rentals have grown in a similar fashion, for all anchors. And Kurla and Chennai are currently seeing a similar trend because the renewals are ongoing today. So, this is actually not the estimate but the trend that is seen across all our malls, what you see in the slide.

Kunal Lakhan So basically, we can expect, because all of these malls are now 6 years old so we can expect some significant reset especially on the area coming up for renewal.

Shishir Shrivastava As I mentioned, Pune Market city and Phoenix Market City at Bangalore has already seen this.

Kunal Lakhan No I am talking about the area in which is coming up for a renewal. Like Chennai

Shishir Shrivastava Yes. Also, after this renewal cycle, the next tenure where you might see this trend may not be 6 years, it may be the 4th year. Because the new contracts for inline are typically in the range of 33 months or there about. So, the impact of that you will see after the next 12 months. After the 33rd month gets over.

Kunal Lakhan Any colour on the resets that could happen significant area coming up there. And if you look at the current rentals seems like based on the average rentals that we are quoting, seems like a significant portion of our portfolio could be under rented. Any colour that you can give over there.

Shishir Shrivastava I would hesitate to try and put some number there. But let me just tell you that High street Phoenix, in terms of the resent transactions that we may have done for Vanilla stores at an average, are at 2X of the average of the mall today. So, this is the best mall of the country and every retailer there has seen good consumptions. Therefore, I think that is the trend that we are seeing there.

Kunal Lakhan And any colour on Kurla. What kind of resets we can expect there?

Shishir Shrivastava Okay. So Kurla, that's an interesting one. Kurla, I think this is very important here. If we look at the consumption growth in Kurla, we have seen a 27% consumption growth in this last quarter compared to the previous year. And for the half year its closer to 18 or 19 percent. Trading density is growing and is now at about 1150 and 1175 in that range, and that is continuing to grow. Again, we have every reason to believe that we will see consumption growth in the high teens going on for the next 24 to 36 months at least. And our rental income is going to track that. So, EBITDA margins are already high in these malls. These are in the range of about close to 100% in this year. So, as I mentioned,If you look at the trend, our rental income will be somewhere in the range of about 12% to 14% of cross consumption and if consumption grows at in high teens, say 16% to 18%, that should give you a general idea of what that trajectory looks like in terms of rental income.

Kunal Lakhan Sure. But more in terms of, because the resets that can happen in a much significant number than the general consumption growth.

Shishir Shrivastava Yes, but the point really here is that the reset of minimum guarantee, is really not going to impact your rental income growth much. It is the consumption growth and when we reset or if there is a renewal or a new transaction where for the same store, the percent of revenue that you are deriving increases marginally. Even by let's say 0.5% or 1%, that will impact significant growth in terms of gross rental income. While I understand that you are trying to get me to give you some kind of an indication in terms of what these numbers are likely to look like, but in all honesty, I don't think I can do that. We are happy for our Varun and myself to meet with you and delve a little deeper into this, but I don't think I will be able to give you any kind of an indication of where this number is going to rest.

Moderator Thank you. The next question is from the line of Abhishek Anand from J M Financial. Please go ahead.

Abhishek Anand My first query will be on this universal square which we have opened this quarter. This is the same land parcel which we have next to HSP right?

Shishir Shrivastava Correct, actually this is opposite PVR we have a 2-level parking lot which is open to sky It has turned out as a spectacular event space.

Abhishek Anand Firstly if you could help us understand we have this un utilized FSI. So, was this part of it or do we have?

Shishir Shrivastava This is open to sky. This is not part of any FSI area.

Abhishek Anand Okay, so no FSI is being utilized here.

Shishir Shrivastava This is just what one would say as a public space that we have created within this thing. The balance FSI potential at High Street Phoenix continues to remain very huge. Under the new DCPI 2034.

Abhishek Anand Could you quantify that, now that the new DP rules, is it up of 1 million sq. Ft. or so?

Shishir Shrivastava There are multiple options under the new DCPR 2034. Anywhere between 1.4 to 1.6 million Sq. Ft. go FSI area is the potential. It could be slightly higher than that also. It also depends on what is the final use that you intend to have over there. We are currently evaluating options.

Abhishek Anand So, what are our plans to expand HSP in terms of the area?

Shishir Shrivastava Yes, you mean in terms of retail, as part of this new phase 4 which we will develop under the new DCPR, there is an intend to increase the retail space as well. Yes.

Abhishek Anand but no time lines right, it’s a bit early!

Shishir Shrivastava Its very early in the day.

Abhishek Anand Secondly, I would also like to understand the supplier scenario in the retail. Although there has been some consultant reports, a lot of supply coming into the retail side, we do know that competition is coming for HSP as well, but in general, just trying to understand how do you look at the supply or do you see it as a treat or the market can absorb the supply which is coming through.

Shishir Shrivastava So, let me share with you that we believe that the demand for retail space is very high. Both from a consumer perspective as well as a retailer perspective. India tracks as lowest of the per capita retail globally. If you look at even a developing country like Vietnam, that is also much higher than India in terms of per capita retail. And more so in a city like Mumbai where you can only count 5 malls on your hand, really there is room for more retail space. So, I would not say, a new mall opening herewill impact our business. However, having said that, we will remain focused on what we do the best, that is being the best in this space. So, we will continue to improve our assets, we will continue to create opportunities for consumers, for retailers and continue to be the leading destination in the city or the country. So, our intend is not to get phased by competition but to continue to focus on being the best.

Abhishek Anand Just the last one. This quarter saw high rent to consumption in HSP. Ideally this should come down right?

Shishir Shrivastava Yes. Certain areas that have opened recently, they are still catching up in terms of consumption. And this will settle down for sure.

Moderator Thank you. Ladies and gentlemen that was the last question. On behalf of the management of Phoenix Mills limited we would like to wish all of you a very happy Diwali. That concludes our conference for today. Thank you for joining us and you may now disconnect your lines. Thank you.

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Note: This transcript has been edited to improve readability