Earnings Conference Call **Q1 FY20**

August 8, 2019

Management:

Mr. Shishir Shrivastava – Jt. Managing Director

Mr. Pradumna Kanodia – Director Finance

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY20 Results Conference Call of The Phoenix Mills Limited. The company will be represented by Mr. Shishir Shrivastava – Joint Managing Director and Mr. Pradumna Kanodia – Director (Finance). As a reminder, all 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 an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Shishir Shrivastava. Thank you and over to you, sir.

Shishir Shrivastava: Good morning, ladies and gentlemen. We take immense pleasure in welcoming you all to the operating and financial performance of first quarter of financial year 2020. We started the financial year on a strong note as all our business segments have delivered robust operating and financial metrics. Phoenix MarketCity Mumbai, Phoenix MarketCity Bangalore and Phoenix MarketCity Pune were the top performing retail assets and key drivers of our retail segment performance. Our commercial segment which is an integral part of our future growth strategy along with retail delivered a stellar quarter backed by higher occupancy at Art Guild house and Fountainhead Tower 1 in Pune, our newest commercial asset. Construction work at Fountainhead Towers 2 and 3 is progressing very well. Completion of these assets will further boost our commercial segment revenues.

Performance of our hospitality segment has been resilient backed by significant improvement in room occupancy at both our hotel properties, The St. Regis in Mumbai and The Courtyard by Marriot in Agra. At The St. Regis, Mumbai occupancy has gone up by 8% points over the same period last year while ARRs were marginally down 3% at Rs. 10,913. The approach and strategy deployed this quarter to boost performance at the The St. Regis, Mumbai was to focus on REVPARs that means higher occupancy and the ADR in itself was marginally lower but resulted in a much higher REVPAR.

Courtyard by Marriot at Agra has seen occupancy improvement by 17% points while ARRs were up 5% at Rs. 3,353. Our residential segment reported a strong performance this quarter driven by revenue recognition at One Bangalore West Tower 6. We have also recently launched Tower 7 at One Bangalore West in July 2019 and the customer response has been extremely encouraging.

Moving on to our projects under development, work across our market cities in Pune, Bangalore, Indore and Palladium at Ahmedabad is well on track and progressing at a good speed as you can see from the images that we have uploaded along with the presentation. We are happy to share that construction at Phoenix Market City, Lucknow is now complete and we are in the process of handing over the units for fit-outs. We are eagerly looking forward to the mall being operational in the second half of financial year 2020. In our commercial portfolio, we have approximately a million square feet of office portfolio under development at Fountainhead Towers 2 and 3 in Pune and Phoenix Market City, Chennai. We also intent to add commercial offices at our flagship property High Street Phoenix, Mumbai and Phoenix MarketCity, Bangalore as well at our under-construction retail developments in Pune and Bangalore. We are confident of achieving our strategic goals and continue to focus on delivering consistent growth through superior execution.

With this, I would like to hand over the call to Mr. Kanodia – Director - Finance who would provide a brief on our financial performance.

Pradumna Kanodia: Thanks Shishir. Good morning, ladies and gentlemen. Thank you for joining us on the call. Continuing on the briefing which Shishir just gave us, and I am sure you would have gone through the presentation which we have also uploaded, I would like to share with you some of the key highlights of our consolidated operating and financial performance. Retail consumption across our malls was at Rs. 17,815 million for the first quarter of financial year 2020 which is up 5% year-on-year. Consumption was driven by strong performances at Phoenix MarketCity, Mumbai which was up 14% year-on-year to Rs. 2,589 million. Phoenix Marketcity, Bangalore, the consumption was up 9% year-on-year to Rs. 3,364 million and Phoenix Marketcity, Pune the consumption was up 9% year-on-year to Rs. 3,331 million. The aggregate rental income from the retail side of our business was up 7% to Rs. 2,596 million and retail EBITDA was up 8% to Rs. 2,556 million for the same period. Commercial income also was at Rs. 250 million up 68% year-on-year driven by higher occupancy at the Art Guild House and operationalization of Fountainhead Tower 1.

The St. Regis, Mumbai reported EBITDA of Rs. 253 million this quarter, up 5% year-on-year while the Courtyard by Marriot at Agra reported a strong growth in revenues, up 36% year-on-year at Rs. 76 million. The consolidated revenue from operations was Rs. 6,150 million for the quarter, up 49% year-on-year. Residential business contributed revenue of Rs. 2,071 million and a PAT of Rs. 496 million majorly on account of sales recognition at Tower 6 in One Bangalore West. Excluding the contribution from the residential business, the PAT from our core annuity income generating business of retail, hospitality and commercial offices was at Rs. 808 million for this quarter which up 40%

year-on-year. Our mature and fast-growing rent generating assets have enabled us to deliver consistent profitable growth. We have been very judicious about our capital allocation strategy in this phase of growth and our business goals are aligned with the objective of value creation for all our key stakeholders.

We also announced the board approval for the scheme of amalgamation between The Phoenix Mills Ltd. and its subsidiary Phoenix Hospitality Company Private Ltd. I would take this opportunity to give you a quick overview of the scheme that has been approved by the respective boards. The idea behind amalgamation of the two companies is in line with our strategy to consolidate stakes under The Phoenix Mills Ltd. As of now, Phoenix Hospitality holds investments in various of our SPVs; broadly 50% in Starboard Hotels which owns the Palladium, Chennai property, 57.99% stake in Alliance Spaces which owns the Fountainhead, Pune commercial projects, it holds 47.7% stake in Palladium construction which is developing One Bangalore West (OBW) in Kessaku developments as well as the operational asset of The Courtyard by Marriot. And 77.33% stake in Graceworks Realty which holds The Phoenix Paragon Plaza adjacent to our Offbeat Developers, Kurla mall.

PML holds 56.92% stake in Phoenix Hospitality while the balance 43.08% stake is held by Ruia International Holding Company Private Ltd. Ruia International Holding Company is a promoter group entity and as on quarter ended June 30th, 2019, was holding 32.18% stake in Phoenix Mills of the total promoter holding of 62.75% in PML. Pursuant to the terms of the scheme, PML will allot 6.27 million shares to Ruia International i.e. Ruia International will receive 627 equity shares of PML for every 100 equity shares held by Ruia International in Phoenix Hospitality. Consequently, the promoter group holding in PML shall increase by 1.46% which will take their holdings from 62.75% to 64.21%. The scheme is subject to multiple regulatory approvals and the expected timeline for getting the same is between 12 and 15 months.

With this, we would now like to take your questions. Thank you so much.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek: I had two questions. If I look at your Chennai mall performance, somehow it has been very subdued for a very long period of time. Do you have any plan of action to bring its performance in line with some of your other malls especially like Bangalore or maybe even the turnaround what you have seen in Kurla?

Shishir Shrivastava: If we actually look at the performance at Chennai, let us look at the trading density. The trading density is roughly at about Rs.1,435 for the Marketcity and about Rs. 770 Palladium. If we just look at the growth of consumption at Palladium, that is up about 36% for the quarter. This growth of 36% is actually what our focus has been to really activate Palladium Chennai and try and get our trading densities to move up. Logically, one would also assume that PMC Chennai with the changes that have happened there recently and with the entire area that we have uplifted and upgraded is slowly going to result in a further consumption growth there. I would not say that Rs.1,435 is a low number for Marketcity alone but yes, there is room for improvement and we are working, we continue to activate the mall as we do across all our other malls, pretty much in line with where Phoenix Marketcity, Pune, which is the top performing mall of that city is at. So, the focus for the present continues to be Palladium Chennai, to try and improve the consumption and consequently the trading density there.

Abhishek: My second question is on slide number 59, correct me if my understanding is wrong. I look at the total revenue recognized at Rs. 1,775 crores versus total sales of Rs.1,693 crores. So, I mean why is revenue recognized higher than the sales? What you have done in these 2 projects?

Shishir Shrivastava: Abhishek, allow us to just take a quick look at that and come back to you. If we can move on with other questions, we will answer.

Abhishek Bhandari: And my last question is again on your residential part of business. I think, this quarter there were no new net sales apparently but we do have kind of finished inventory sitting in our One Bangalore West and the new Tower 7. So, are you guys looking at some kind of activation scheme or some kind of promotional program to probably accelerate some of the sales in those locations?

Shishir Shrivastava: Yes, there are several initiatives that have been undertaken there and in fact when we did launched Tower 7, we have seen a lot of interest there. I think the number of initial bookings and all that we have received is also reasonable, it is a reasonably a good number. We are going to shortly be undertaking some additional promotional and marketing activities there and some incentivization programs for the existing residents within our community there. So, there are several initiatives that have been undertaken already.

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

Kunal Lakhan: So, just again a follow up on the earlier question. Overall if you look at consumption growth across our malls barring Kurla, it's been in single digits and you can tie that up with the numbers reported by listed retailers also. They are in those mid-single digit kind of growth rates. So, just wanted to understand if this slowdown in consumption, is it kind of systemic or due to any one-offs?

Shishir Shrivastava: Are you looking at Phoenix MarketCity, Mumbai as the illustration for this?

Kunal Lakhan: No, I am looking at all the malls except for Phoenix MarketCity Mumbai.

Shishir Shrivastava: Okay, you are looking at the general consumption growth rate.

Kunal Lakhan: General consumption across malls and tying up with the numbers reported by the listed retailers which is mid to low single digit growth. So, just trying to tie up those numbers with our numbers now.

Shishir Shrivastava: So, actually we also look at segment wise growth within our mall development and if we just look at across all of our malls together, we see that the growth is slow in electronics mainly in this quarter as compared to the corresponding quarter of last year, there has been a de-growth in electronics. But all other segments have seen growth of about anywhere between 14% to 18% in consumption. So, this will give you a fair idea that retailer performance has not seen a de-growth or a slowdown. Having said that, across all of our malls this quarter, there have been stores which have gone on for upgradation or for renewal or there has been a churn. So in terms of consumption, there is no trading happening there, there is no sales being generated out of that square footage. And that has consequently resulted in, if you look at High Street Phoenix and Palladium for example, we had Lifestyle at a very initial stage of being reopened. PVR itself was at a very initial stage of being reopened. Apple store has just opened there, so that entire area for the last quarter was not trading. Tanishq was being moved to another floor. So, the old area and the new area that they were occupying were not trading. So, consequently the trading area at all of these malls was lower in this quarter and therefore the consumption was not generated from that space.

Kunal Lakhan: So are you saying that like-to-like sales or consumption would have grown at 14% to 18%?

Shishir Shrivastava: No, I would say that it would have averaged out like-to-like, mostly would have averaged out in these malls where we are looking at anywhere between 9% or thereabouts.

Kunal Lakhan: Secondly, on last quarter you had mentioned that you would continue to evaluate new acquisitions for additional about 3 odd million square feet of assets. Any update on that?

Shishir Shrivastava: Nothing at present. We do not have any announcement to make at present. Our business development activities continue to remain very strong but there is nothing that has been concluded that we have that we can report on at this point in time.

Kunal Lakhan: But are you seeing more deal flows considering the current liquidity stress in the system or better terms of deals?

Shishir Shrivastava: Yes, I would say that in the micro markets that we are currently scouting, we are seeing some very attractive values on land.

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

Adhidev Chattopadhyay: Firstly, I would like to ask, in your presentation in the High Street Phoenix, given plans for around million plus square feet of offices, could you just elaborate more what are the plans there? When we see the approvals coming in and under the new DP norms like what savings on FSI cost you may have there?

Shishir Shrivastava: So, we have, under the new DCR, there is a potential to build close to about almost 2 million square feet of FSI area at the Lower Parel location. We have looked at how we would like the development to pan out, so we do not believe that we will be utilizing the entire FSI potential there. But we expect at least to be able to deliver about 1.1 million square feet of FSI area which will translate to, say 1.5 million square feet of gross leasable area. Yes, there are costs because all of this additional FSI, bulk of this additional FSI will come in on payment of some premiums, so there is a cost to that. And we have been evaluating that there has been some recent notification on the cost of such premium being reduced further from what was originally envisaged. So, we will have some visibility on this shortly. We are currently working on the plans.

Adhidev Chattopadhyay: So, what would be upfront payment like the entire FSI would have been upfront payment or again it will be in stages or you will look to lease this entire thing? How does it work?

Shishir Shrivastava: Yes, we are looking at a combination of retail and some commercial offices over here which we will entirely own those assets and we will be leasing that out. And generally bulk of the development of 1.1 million square feet of FSI will be concentrated at one location. So, it should not affect the operating mall or operating commercial spaces that we have today already. That one location we used to have an erstwhile block 16 where at present there is really no activity being carried out. We were using most of those spaces as marble yard for our own construction activities.

Adhidev Chattopadhyay: Secondly, on our upcoming assets, you said Lucknow you were hoping to start up in the second half of the year. Could you just give us a sense how much would be preleased and like how much of the space would open in the beginning itself? And any indicative rentals you could share for that?

Shishir Shrivastava: About 75% has already been preleased. So, we expect that when we commence operations of the mall, we should have about 80% of the stores trading when we open. Generally, an average rental that we have achieved across all categories would be about Rs. 115.

Adhidev Chattopadhyay: This is the minimum guarantee and so, sir when would it be up like in the last quarter or you are looking at a Diwali opening…

Shishir Shrivastava: We have commenced handing over the space for fit outs to retailers. It is dependent on how fast they are also able to complete their fit outs and be prepared to commence operations. I would think, yes somewhere in the early part of the last quarter we should be able to see that mall commence operations.

Adhidev Chattopadhyay: And if you can just update on leasing of other malls and construction like Indore especially while I guess Bangalore and Pune still have some time to go before they commence.

Shishir Shrivastava: Correct, so Indore as you may be aware we acquired a partly constructed mall. We have very little construction work to actually do over there. In terms of RCC there is just one slab that we have to complete which we have commenced our work at site already. So, really does not involve any major construction or any major demolition or construction at all. It is more about services and interior works and some repairs of some old construction over there.

Adhidev Chattopadhyay: So, sir any clarity when will this start again or any definite timeline?

Shishir Shrivastava: So, we received all our approvals only about a month and a half ago. We have commenced our construction activities in June. We expect about 18 months for completion from July.

Adhidev Chattopadhyay: So, again by end of FY21 for the last quarter is something if you could see?

Shishir Shrivastava: Yes.

Adhidev Chattopadhyay: And last question is on Bangalore, the new tower that we have launched, would you just give us what has been sort of responses similar to, when we had first opened booking sir, many years back over there like what is the general sentiment in the market now for that project?

Shishir Shrivastava: No, I would say generally the sentiment in Bangalore market is not extremely high. However, we have received good response in terms of number, we have only done a very initial launch by invitation and we sent out invites. We have done some 12 or 13 sales so far in tower 7.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Can you give some color on how is your renewal negotiations progressing for the upcoming releases. What kind of spreads are you likely to see?

Shishir Shrivastava: In our existing operating mall portfolio?

Puneet Gulati: Yes, existing operating malls.

Shishir Shrivastava: Sure Puneet, will give you an update generally on our renewal schedule across the board. In High Street Phoenix and Palladium, we have seen about 21% of re-leasing or renewal in FY20. So, 21% was the renewal in

FY20, we have already completed all these, I think almost all of these renewals have been completed or new tenants moving in that have already been finalized, the contracts are in place. We have in fact now begun work on the FY21 renewal schedule of about 16%. In FY21, we are expecting our retail leasable area to increase to some extent. So, we have started work on leasing this additional space that we will be adding to our retail GLA at High Street Phoenix.

Puneet Gulati: What kind of incremental rents are you seeing in the current round of negotiation for HSP? Then how do you think it will impact the average for the mall?

Shishir Shrivastava: It is tough to answer the question in a manner by generalizing and giving an average. But if we were to look at, let us say specific anchors such as Lifestyle, the space was renewed at about 35% to 40% increase in the minimum guarantee and also there was an increase in the revenue share percentage there. Generally, I would say that most Vanilla stores, inline stores that we are renewing or we are re-leasing, we are at an average rental of about Rs.675 upwards per square foot. So, the average is going to move up significantly on that account. On the areas that we have re-leased, we have achieved a minimum guarantee growth of almost 30% at High street Phoenix.

Puneet Gulati: And for in line you are mentioning Rs.675 is an average, what would that go to typically?

Shishir Shrivastava: That moves up in excess of Rs. 950 as well, in line.

Puneet Gulati: And how is the negotiation for some of the other malls, Pune, Mumbai are due and significant part is due in FY21 and would you see some anchors also coming up for renewal there?

Shishir Shrivastava: Sorry at which location?

Puneet Gulati: Pune, Mumbai, Bangalore in FY21 both have upwards of 20% area for renewal.

Shishir Shrivastava: In Kurla, yes we do have significant anchor renewals**,** as well as in Pune, as well as in Bangalore. So, there is a huge upside there because these are all old legacy contracts which have been natural contractual escalations but now there has been a Mark-Up-to-Market and what typically happens at end of this 9 year contracts is a lot of this anchor space gets split. We create more in line space as well which adds up to your leasable area as well as the rental achievable per square foot.

Puneet Gulati: So, some leasable areas also expected to go up in these malls?

Shishir Shrivastava: Yes, it is not going to be a huge jump, but it is significant enough. I would say the impact is twofold. Like I said, the leasable area goes up and your rental per square foot goes up and thirdly the biggest impact is that the general mall gets uplifted significantly at these times with newer brands coming in.

Puneet Gulati: But do you also foresee a risk that in these times of significant churn, there could be overall slowdown at the consumption level for these malls because some area would be vacant, some not trading.

Shishir Shrivastava: Which brings me back to the first question that I answered on this call that we have been tracking the category wise consumption growth or consumption trends across all our malls which gives us an indication that anywhere between 9% to 18% is the growth across categories baring electronics. So, it is quite evident that consumption continues to grow in our malls and the retailers find that very attractive. I would like to believe that, because we are demonstrating significant consumption growth, a risk of flight is very low.

Puneet Gulati: No, I am not talking about the risk of flight but just the fact that at some point of time some areas will not be trading and some will be in the rent free period or are those no longer our part of contract.

Shishir Shrivastava: That is the routine nature of our business Puneet. Because let us say a store of 20,000 square feet if there is a change it is not a renewal but does a change in brand that could result in that store not trading for 2.5 to 3 months. So that is routine, for example when we at High Street Phoenix, moved from Big Bazaar to H&M, that area was not trading for about 6 months.

Puneet Gulati: Secondly, just going back to the Chennai thing right, I mean you have pretty decent level of occupancies there but still for some reason the consumption does not seem to be picking up. Is it something wrong with the market itself?

Shishir Shrivastava: Palladium Chennai has shown a significant improvement in consumption.

Puneet Gulati: It is on a low base also, right.

Shishir Shrivastava: Yes, I do not deny that, I agree with that. But if you just look at the performance of that asset, it's on a trading density basis, it is not much difference from Pune. Yes, it is not as much as Bangalore but it is not much different from Pune either.

Puneet Gulati: So, do you think there is limited room for it to grow from here?

Shishir Shrivastava: I would like to believe that with the changes that we are putting in effect right now at Chennai that should certainly result in higher growth of consumption over there. It would not be unreasonable to expect the average consumption growth of anywhere about 14% or thereabouts from that mall, if we were to look at the next 2 years period, year-on-year.

Puneet Gulati: 14% year-on-year consumption growth over next 2 years, okay?

Shishir Shrivastava: Yes, see we have about 50% to 53% of the area coming up for the renewal in FY21 and FY22. That is the opportunity for us to effect some significant changes which will translate into a different experience, more brands, more newer brands coming in, resulting in our consumption growth.

Puneet Gulati: So, in 3Q the rent per square for Palladium Chennai was Rs. 131. It went down to Rs. 100 in Q4 went up to 130 again. So, just trying to understand what is resulting in such sharp variances?

Shishir Shrivastava: So that dip was on account of some write-offs that we had on our rental in the Q4 numbers of the previous financial year. So, the 130 is as on current. If we look at our average for last year, FY19 the average was Rs. 126 per square foot, per month which is grown to 130 in this …

Puneet Gulati: Yes, started at 160 actually came down to 130, so just wondering….

Shishir Shrivastava: So, when we had opened Palladium, these are the initial teething issues that one does have because at the end of the day you also have to maintain that relationship with the retailers, if they have not been able to perform in the opening months or in the opening periods. Then you have to work towards resolution there and we did some write-offs there.

Puneet Gulati: Lastly on the residential part again, last time there was some talk of given that now OC has come we could see some potential closings. That has not happened, any more color on what is driving people away still?

Pradumna Kanodia: The fact remains that there was the change in the GST laws also where the 5% came into position and people were little confused about how to take it forward. Developers also had their own take on that. So, the inventories which have received OCs have not really been impacted by the GST changes. But overall people were sitting on the side lines and just waiting to see how the developers would react and how things would flow out eventually. So, now since we have a bouquet in terms of new launch in Tower 7, which we did in July, Tower 1 to 6 are ready inventory available for people who want to move in with different configuration and of course our Uber-luxury offering at Kessaku is there. So, hopefully without really trying to pressurize the market and the velocity and the ability for us to maintain our price is very important. So, we have business plan for the current year which should be good enough for us to maintain a balance where we are able to maintain our margins, ensure healthy cash flows coming out for us to meet all our Capex requirements in the project without having to dip into any resource from other PML or from our bank. So, that is our idea that given the fact that it is in a very sweet spot, we do not want to really change our strategy around that.

Moderator: Thank you. The next question is from the line of Chintan Modi from Motilal Oswal Financial Services. Please go ahead.

Chintan Modi: So, if you can share timelines for Ahmedabad mall and Fountainhead Tower 2 and Tower 3, when are they expected to be operationalized.

Shishir Shrivastava: Sorry, may I request you to repeat your question, I heard the first part on the timelines of Ahmedabad.

Chintan Modi: And Fountainhead Tower 2 and Tower 3.

Shishir Shrivastava: Fountainhead Tower 2 and Tower 3, sure. So Ahmedabad target is first quarter of FY22 for completion.

Chintan Modi: So I did not catch that, FY22?

Shishir Shrivastava: FY22 first quarter. Tower 2 and Tower 3 are already under construction and we expect to have them operational in FY21.

Chintan Modi: So, basically in FY21 we should see Fountainhead Tower 2 and Tower 3 and Indore malls coming into operations.

Shishir Shrivastava: That would be correct.

Chintan Modi: And we had this parking fee issue, I mean Gujarat High Court had given a judgement that malls cannot charge parking fee, any take on that?

Shishir Shrivastava: The matter is still not resolved, while I understand that the Pune High Court has taken different view, a very positive view in our favor, I would say, on this matter. But it is still not concluded. So, in the end of the day I think, well it is a matter that is going to be argued in Court. So, no point in sharing our opinion on it, but it is an asset that people invest money on to be a revenue generating asset.

Chintan Modi: And all malls put together what could be our parking income if you can share?

Shishir Shrivastava: In every million square foot mall anywhere between Rs. 25 lakhs to Rs.40 lakhs would be the monthly revenue being generated, income coming to us after expenses.

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

Abhinav Sinha: First question on the Capex side. So, what is the run rate now for the ongoing assets and when do we see this peaking?

Pradumna Kanodia: So, as far as the residential part of the business is concerned, I had mentioned in the previous question that our sales strategy is that whatever ongoing sales and the sales which collection from our existing sales will be sufficient to meet our requirement as far as the residential development is concerned and Tower 7 has accordingly been launched. So, there is no issue around that. Coming to our 5 new developments which are largely the new developments at Bangalore, Pune, Indore, Lucknow and Ahmedabad, from that point of view Lucknow mall of course is going to be operational later this financial year and that spend is really picking up. So, if you were to look at the amount that we have spent in the quarter ended June 2019, the total amount that has been put is Rs.111 crores in the first quarter of the current financial year. The budget to be spent, the balance amount is roughly around I would say Rs. 700 odd crores further would be spent over the next 3 quarters across all these 5 projects. Some of them will see higher spending initially on account of mobilization of resources, etc. Some will also have approval related payments coming in. So, bunch of all this would mean that roughly around Rs. 700 crores would be required in the next 9 months. And given the fact that, we already are sitting on around Rs. 400 crores of committed capital in the Canadian pension fund platform. So, part of that will get deployed. Little bit of capital in Lucknow and Ahmedabad will be from the promoters end and we would take care of the balance amount and of course there will be appropriate debt that we will raise towards the end of the financial year to meet some of the construction finance requirements.

Abhinav Sinha: And sir, when you said that Rs.111 crores was spent but Q-o-Q in the under construction malls we did not see any change in debt, right I mean …

Pradumna Kanodia: Yes, so under construction we have not taken a debt except for Lucknow where the debt has been taken on day 1. The rest of the 3 malls which are under the Canadian Pension fund, I already mentioned that we are still sitting on Rs. 400 crores of committed capital on that. So, that will get deployed and Ahmedabad initially we had Rs. 430 odd crores money put in by both the partners and again start total commitment of around Rs. 460 odd crores. So, that was the desire that we want to keep the debt equity slightly comfortable and do not get aggressive with the debt raising. But Ahmedabad we would be looking at raising debt in this quarter and Lucknow, of course there are the underarm limits which we will continue to draw as the progress happens. And for the other 3 which are under the CPPIB platform I think, the raising of debt would be deferred till we complete our equity which is currently lying and once we are close to exhausting that then we will raise construction finance there.

Abhinav Sinha: See secondly, if we have to do a new sort of a mall or a new acquisition then the funding is likely to be what?

Shishir Shrivastava: I think we have the ability on our own balance sheet to at least do another I would say one large acquisition outside of the expansion that we have planned, the Phoenix Rise at Lower Parel. So, we would have some, you may be aware of our free cash flows being generated from our existing assets. We expect consolidated across our malls in this year again we would have seen about Rs.550 crores kind of free cash being generated. So, we have the ability to utilize that to at least fund part of the acquisition.

Abhinav Sinha: And Shishir for the Rise project, where do we see the first sort of thinking to start or something like that, I mean first signs?

Shishir Shrivastava: I think we are about 9 months away from reaching that point. Presently as I mentioned planning is under way. We are trying to understand the huge positive impact of the recent notification which will result in our reduction in cost of the premiums, etc. Earlier we had envisaged that to build out this 1.6 million GLA asset the premiums would be about as high as about Rs. 1,100 odd crores but it seems that debt will reduce by about Rs. 300 crores, the cost of that. So, we are kind of working on the plans right now and we will be making our submissions for approvals in some time shortly.

Abhinav Sinha: And see, again just last question on HSP itself. So, we are seeing now 5% rental, 3% EBITDA and you have talked about the very good sort of renewal that we have done. So, when does this pick up, I mean is it 3Q, 4Q when do we see the Y-o-Y number improve here?

Shishir Shrivastava: I would say Q4 you will start seeing the impact of the renewals. Yes, so the impact of renewals on our rental income will be in about Q4.

Abhinav Sinha: And is there a change in mixes towards or it is largely the same?

Shishir Shrivastava: No, it has a significant change in the mix that we are expecting and more so in FY21 the renewals that are likely to happen. But when you say mix in categories or are you talking about the allocation between anchors and in line …

Abhinav Sinha: Categories/brands, I mean what is changing now?

Shishir Shrivastava: We are actively moving away from those big huge boxes that we have. So, that is one approach that we have, the category mix will largely remain the same maybe a slight increase in the F&B perhaps to some extent and but premiumization of the brands is what our focus is going to be. You should come and take a look at the largest Apple store that we opened recently. It is a fantastic value add to the development. It is a huge premiumization to our mall. You come and take a look at the third floor of Palladium where we opened 2 fantastic F&B outlets in the erstwhile comedy store area.

Moderator: Thank you. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: My first question is related to the deal that you just announced. I would just like to understand the valuation and the debt involved at that operating subsidiary?

Shishir Shrivastava: So, I would say the CA firms that have done the valuation for the subsidiaries they have gone on the basis of an earnings-based approach and arrived at the valuation.

Ayaz Motiwala: Arrived at the swap ratio which you announced the number of shares.

Shishir Shrivastava: Correct, the swap ratio of 6.27 shares of Phoenix Mills being issued for every individual share of Phoenix Hospitality. For Phoenix Mills Ltd. valuation, they have applied, they have considered various approaches to arrive at the valuation. There is of course what is already laid down by the guidelines there is a 6 months approach, there is a base ICDR approach and they have also taken in NAV approach. So, they have broadly gone with the average of the NAV valuation which is much higher than the ICDR valuation. They have taken an average of the 2. The swap ratio finally has been derived on the basis of almost 15% plus premium to the current market value of Phoenix Mills shares.

Ayaz Motiwala: And there is a detail of the other holdings that this Phoenix hospitality has, but just as a clarification the current operating hotel in High Street Phoenix, is that a part of a separate company still? Or it was under Phoenix hospitality?

Shishir Shrivastava: No, that is part of Phoenix Mills, it does not come under Phoenix hospitality. It is a subsidiary of the Phoenix Mills Ltd. directly not held through Phoenix hospitality.

Ayaz Motiwala: And this is away from the subject but that one does not have 100% ownership by Phoenix Mills, right? There is a third-party ownership in that the St. Regis property and so, …

Shishir Shrivastava: There is a third-party ownership of up to 27% on a diluted basis in the convertible instrument but yes.

Ayaz Motiwala: And is there a direction on that, one that you are going to look at as well as being a part of their consolidation exercise?

Shishir Shrivastava: Well, it fits in with our approach of every asset sitting under a separate SPV. If you are talking about acquiring the partner over there, the present point in time there is no such discussion under way.

Ayaz Motiwala: The two parts to the renewal question that I have, one, you mentioned Shishir that for example Lifestyle is going to take a 30% increase in minimum guarantee and there is also a tweak to the higher and you are going to get a higher revenue share, right?

Shishir Shrivastava: Correct, so that is already being executed. That is already in effect today.

Ayaz Motiwala: Now, tying up with the whole environment questions and the fact that the tenant is taking a rent increase. Is there an implicit assumption that the tenant is going through and obviously you all believe that if the consumption comes, we are happy to share a higher revenue proportion otherwise we are lowering our cost of operation? How does one understand this?

Shishir Shrivastava: So, the renewal I would say of the minimum guarantee moving up from what was earlier 240 moving up to about Rs. 330 that would still translate to not more than at the minimum guarantee that would still translate to as a percentage of revenue not more than about I would say 11% or thereabouts of their sales. So, cost of occupancy because the consumption remains high, the cost of occupancy is not increasing as a percentage, right. And this is pretty much in line with what the market is at for a department store of that caliber performing at that level for them to share even up to 13% of the revenue is not an unreasonable expectation.

Ayaz Motiwala: And then there is a higher revenue share number but as you implied that 11% of the higher raised rent of Rs. 330 is also still within their operating ballpark?

Shishir Shrivastava: So, what happens there is you get either the minimum guarantee or a percentage of revenue which will be higher, right?

Ayaz Motiwala: Yes, so I understand. So, in effect you are saying that Phoenix is a net beneficiary out of this exercise is what I understood now. So, you raise the minimal rental and you raise the proportion of revenue share but to the tenant it is not a very disproportionate number. So, they are happy to go with that. Is that the final take away, right?

Shishir Shrivastava: That is the take away. See, what happens is when you look at the renewal, okay the minimum guarantee moves up from the earlier minimum guarantee to a number which is slightly higher than the gross rental that they are paying. So, when I say gross rental that maybe that is a number which is higher than the minimum guarantee on account of the revenue share that they are paying you already. So, while the minimum guarantee has moved up from Rs. 240, the gross rental we were deriving from this on account of revenue share may have, in any event been closer to Rs.300 or thereabouts.

Ayaz Motiwala: And then the second question that I have is you were talking about the renewal of Bangalore and Pune and you said that we had this 9-year commitments on the anchor tenants. And there will be a little bit of re-layout which will release a small leasable area in addition to mark-to-market changes that may potentially come up. So, if you could just elaborate again maybe, I did not catch the number but for 2021 in the other Market cities primarily Bangalore and Pune and you mentioned Chennai passing as well. What is the area which is coming up for anchor type tenants where we could see a very large increase because it is coming up after an extended period.

Shishir Shrivastava: So, the overall area that is coming up for renewal in FY21 will be about 250,000 square feet in Bangalore, for example. Of which, these 9-year type long term anchor tenants maybe roughly about a good chunk of that if I were to hazard a guess and I do not have the number at my fingertips right now. But that would be close to about maybe 190,000 square feet out of that, 250,000-260,000, right. And similar would be the case also in Marketcity Mumbai and Pune as well and Chennai. Because Chennai also has about 20%, 200,000 square feet coming up for renewal. But in Chennai it will be in FY22 when anchor tenants would be coming up for renewal in 2022.

Ayaz Motiwala: And Pune and Kurla also similar numbers about 150,000 to 200,000 square feet at least renewal in 2021?

Shishir Shrivastava: Yes, I would say in …

Ayaz Motiwala: And since you would mention Pune and Bangalore would have a higher number of those anchor tenants which will have a large list either a change or they will come mark-to-market. Is that correct?

Shishir Shrivastava: That is always our endeavor, yes.

Ayaz Motiwala: And lastly if can slip in one quick question on the projects, like you shared over the years on the new projects you are doing mixed use, Lucknow is nearly off the blocks which is there and you shared about other projects in Ahmedabad, etc. At the current sort of environment of rentals, where we are talking about these MarketCity projects leasing at Rs. 60-Rs. 80, now Lucknow at Rs. 115 and then new land prices. Shishir, what would be your sense of return on capital or IRR, is that we should look at on an extended period of 6-8 years when these malls get launched plus the first renewal like is coming up for Bangalore, etc. after 9 years? If you could give some sort of sense that would be very helpful.

Shishir Shrivastava: I would say, we should look at a starting yield in the first year of operation. First 2 years of operation we should look at our yield or return, yield of about 12% to 13% on the total capital deployed. And this continues to grow every year as the rental income grows as the consumption growth is continuous. I would say in the 6^{th}-7^{th} year of operation, one would be closer to about 18%-20%, 18%-19% kind of a yield on capital deployed.

Moderator Thank you. The next question is from the line of Dhaval Somaiya from Phillip Capital. Please go ahead.

Dhaval Somaiya: So, the core portfolio PAT on a quarter-on-quarter basis if you see has come down from 1,348 million to 808 million, that is almost a decline of 40% while the revenue on a quarter-on-quarter basis from core portfolio would almost be in line, any specific reason for such a decline in PAT?

Pradumna Kanodia: No, so basically in Q4 of FY19 there was an exceptional one-time reversal of expenses which gave the optical number that the PAT has increased in that quarter which was not the case. Because that was a one-time adjustment of some write off of interest which was being charged between two group companies and also on account of some IndAS adjustment. So, one needs to ignore that number to really look at the PAT numbers and compare apple-to-apple. So, one cannot just see the numbers and say there is a fall in the PAT from that perspective.

Dhaval Somaiya: My second question is on the front of Kessaku there seems to be some cancellations. Is that the case?

Pradumna Kanodia: No, I think for this quarter also we have recognized income for incremental sales at Kessaku. But overall since it was nearing completion and OC was received in the last quarter of FY19 the total area that remained sold maybe marginally one unit would have got adjusted because people were looking at moving into some of the other developments that we were offering Tower 1 to 5 and 6. So, there could be 1 or 2 movements from Kessaku to those buildings. Otherwise, in general the sales have been sturdy.

Dhaval Somaiya: And if you can give some color on what would be the total amount to be left to be spent on PMC Lucknow, going forward?

Pradumna Kanodia: So, core construction activity if we were to look, I am not counting the other overheads and interest during construction, etc. We may be left with roughly around Rs.125 crores to Rs.130 crores which may be spent in the balance period of 6 to 8 months' time.

Dhaval Somaiya: And one last one, have you seen any pre-leasing trend for the Fountainhead second and third Tower?

Pradumna Kanodia: We are still some time away from completing. We will launch it at an appropriate time. But I think the Tower 1 has seen, 95% almost leased out. So keeping that in mind I do not see that the Tower 2 and 3 should have a challenge.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: I had 2 questions. One, I think somewhere in the call you have mentioned there will be new area coming for leasing in High Street Phoenix. So, can you briefly explain what have you done and how is the area increased and what could be the incremental area, what you would have over let us say next one year?

Shishir Shrivastava: Abhishek, we have acquired some long term tenant's areas in Phoenix House. And the general idea, so we were not earning any rental from there. It is a long term tenantswhich we have recently acquired now. So, consequently the area under our control is increasing and we are looking at expanding the size of Sky Zone in that additional area on the floor above that we have acquired.

Abhishek Bhandari: What would be the size?

Shishir Shrivastava: About little over a 110,000 of thereabouts.

Abhishek Bhandari: The second question is Shishir; this is more on strategy part. You guys have already seen 10 to 12 years of some of your mature assets. I am sure there would have been some learnings from how to lease out to anchors and who could be the new anchors going forward? So, could you help us explain in the new leasing what you are doing for the upcoming malls? Are the anchors the same one's what you had in the past or there has been a significant shift now? And also related questions are the contract terms differing significantly from the once in the past? The place where I am coming from if with these industry reports and all we get a sense that the good quality malls like yours are in a significant pricing power and hence can potentially ask for a better rate from the tenant. So, it is coming from there?

Shishir Shrivastava: So, let me answer your question in 2-3 different parts. One is, the market or rather let us say the retail environment today is extremely different from what it used to be 10 years ago, right. There is a new type of anchors that have now come into malls which one, who were not there even 8 years ago. So for example if we were to look at brands such as H&M, Zara, Marks & Spencer these are now the new anchors and while you continue to have the traditional anchors as well which are your hypermarket and let us say cinemas, etc. Department stores. Earlier the traditional anchors would occupy your prime ground floor space leaving very little room for high rent generating in line space at the ground level, right. So, what we are now seeing and our approach has been in our new malls, is to free up the prime ground floor space for these new age anchors and more for the in line tenants. And the traditional anchors then move up to a higher floor where because they do not have the ability to pay very higher rentals or as high rentals as we may expect from the premium spaces. So, this is a significant change that has happened over the year. Plus what we are now also doing in our design is we are creating multiple entry points at different levels. So, what happens is when you have a car, , you can drive up the vehicle to the first floor, second floor, third floor of the mall and enter the mall on those levels you are creating huge footfall and traction on those floors as well. So, that is a significant change in our design that we have now implemented.

Abhishek Bhandari: And are the terms of the contracts also seeing some changes in terms of probably a higher minimum guarantee and a lower revenue sharing given that now, how to gradually a mall …

Shishir Shrivastava: We do not work in that fashion, Abhishek. We are not looking at squeezing out the retailers to the extent that, we do not want to squeeze them out. We want to, our approach is always been to look at what is our rental as a percentage of their earning potential. And we try and average a mall out at about 12-13% as the occupancy, as the rental as percentage of consumption, right. So, there are no significant changes in the contract terms. We may be looking at slightly shorter tenures in many cases, no more so in in-line stores. In case of in line stores where earlier the contract is to be 5 years or 7 years, we are looking at shorter tenure now in the first term itself. But asides from that there is no significant change in that.

Abhishek Bhandari: And by any chance could you able to reconcile this slide number 59 on the revenue part?

Shishir Shrivastava: Yes, Abhishek our sincere apologies on that one. I think, there has been an error in our presentation not in our financial statements but in our presentation. You are correct the number that we have shown over there as cumulative revenue recognition is incorrect.

Pradumna Kanodia: So, just what happened that the change of the accounting standard from percentage to project completion. So, while the sales value remains the same but you would know that earlier when it was under percentage completion there was some bit of value that was recognized up to 2018 that got reflected again as a number when the presentation was being put up. So, apologies on that. So, Tower 1 to 6 the number should be lower by 130 crores while on the Kessaku the number is correct.

Moderator: Thank you. Ladies and gentlemen, on behalf of Phoenix Mills Ltd, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.