The Phoenix Mills Limited
Q3 FY-16 Earnings Conference Call"
February 11, 2016

Moderator: Ladies and gentlemen, good day and welcome to the Phoenix Mills Limited Q3 FY16 Earnings Conference Call. 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 for an operator by pressing * then 0 on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pradumna Kanodia, Director of Finance. Thank you and over to you, sir.

Pradumna Kanodia: Good afternoon, ladies and gentlemen and thank you for participating in the Phoenix Mills Limited conference call to discuss the third quarter and nine months' financial year 2016 results. I have with me my colleagues - Varun, Suyash, Rohini and Advait. We will take you through the brief highlights of the results and then of course we will be happy to answer any queries and questions that you may have.

We reported a consolidated income from operations of Rs. 13,119 million in the nine months of the current Fiscal year 2016. Rental income from malls remains strong at Rs. 8,364 million with a year-on-year growth of 9%. There was a 39% year-on-year growth in the hotel revenues at Rs. 1,662 million for the nine months ending December 2015.

We continue to drive high quality footfalls and consumption at our malls with innovative marketing activities and events, because of, which the retail consumption till December 2015 was at Rs. 40.8 billion, up 8% year-on-year.

Coming to some statistics about specific assets: High Street Phoenix and Palladium consumption in the third quarter was at Rs. 4,306 million with a trading density at Rs. 3,034 per square feet, which is up 9% year-on-year. There was a 15% year-on-year growth in rental rate per square foot and for the third quarter of this fiscal year, we closed the number at Rs. 300 per square feet per month.

Performance in Chennai was impacted by unseasonal rains and the heavy flooding that the city witnessed in December 2015. Fortunately, for us there was no collateral damage to the asset but of course, the mall had to remain shut for those periods of days when it was not accessible to the public at large, which had a minor impact on the consumption numbers as a result of which some of the revenue share numbers are also marginally down. Consumption was at Rs. 2,825 million and a trading density of just below Rs. 1,600 and the rental was at around Rs. 106 per square feet per month for the quarter ended December 2015.

MarketCity Bangalore was again a strong performer. The third quarter saw a year-on-year consumption growth of 16%, which took consumption to Rs. 2,433 million. Trading density also as a result increased to Rs. 1,403 per square feet per month and rental rate was at Rs. 94 for the same period.

Moving on to Pune: The third quarter again saw strong performance at Pune continue in line with what we witnessed in Bangalore. Third quarter saw the year-on-year consumption growth at 11% to reach Rs. 2,333 million. Trading density as a result was at Rs. 1,139 per square feet per month and the rentals were at Rs. 87 per square feet per month for the third quarter of the current fiscal year.

Of course coming to our last of the Market Cities, which is Kurla, our continues effort in terms of the upgrades that we are doing, the kind of events that we are organizing, the kind of focus that we have given on Fine Dining and F&B and Cafes – now we have seen in the third quarter the year-on-year consumption growth was at 10%, which took the number to Rs. 1,581 million and the trading density growth was 16% year-on-year which now stands at Rs. 855 psf pm and corresponding to that our rentals also moved marginally up to Rs. 89 for the third quarter of the current fiscal year.

This is the brief summary on the mall side of the business. Moving quickly to the development portfolio, which is of course our marquee asset, One Bangalore West and Kessaku. We have seen continuous strong sales and momentum. During the nine months for the current fiscal year, we sold 2.7 lakhs square feet for a total sales value of Rs. 4,013 million, which reflected in to an average realization of just below Rs. 15,000 per square feet at Rs. 14,975 per square feet. These numbers include all our development assets that spread across different geographies. The details of which are anyway given in the presentation.

Moving on to specific assets and a very brief summary on that. Kessaku, which is our super luxury development at Bangalore, has seen higher sales velocity. We have sold over 2.2 lakhs square feet at an average price of just below Rs. 15,000 per square feet and currently the average price that we have achieved so far is Rs. 14,858 per square feet and this has been in a short period of just under 10 months since the launch of the project and highly successful. There have been really very good construction progress also on the existing development of One Bangalore West with Tower 6 and Tower 7 reaching the 25% revenue recognition threshold, which allowed us to do the revenue recognition for the first time for these two towers and we are hoping to look at deliveries of our tower 1 to 5 over the next three to five months' time as they are nearing finishing and completion.

Not just one but several of our residential projects continue to receive several awards and accolades. Our Chennai development won the award for Excellence in Commercial and Mixed Used Development, which was given by the Construction Industry Award and also our One Bangalore West, Kessaku and Fountainhead in Pune won the Estate Awards for the Best

Marketer of the year organized by the Franchise India in partnership with ET Now. So all these developments continue to attract lot of traction plus lot of awards coming our way.

Concluding the discussion and the opening remarks with a brief note on the hotel business. Of course, we have the St. Regis as an operator for our Mumbai property, which has definitely done much better than what it had during last year. In the third quarter we achieved a room occupancy of 78% on an average ADR of Rs. 9,978, which is just a shade below Rs. 10,000. And also the third quarter was up 22% from last year. So the remarkable increase in the ADR as compared to what we were able to achieve in last year.

Room revenues also during the month of December were the highest ever since the hotel opened. That really gives us lot of comfort going forward and the way business sentiments are improving and the occupancy rates are currently showing good healthy trend and we hope to continue the momentum going forward.

In addition, of course Courtyard by Marriott at Agra is our other property. Very happy to inform that it was ranked the Number 2 hotel in Agra by Trip Advisors and this is just the first year operation so for us to achieve that kind of a ranking really is very gratifying and we hope to really capitalize on that. During the third quarter, room occupancies also showed improvement and were at 52% and of course, now you have the season of tourists coming in. Therefore, we are hoping that the next three to four months the occupancies will be much higher and the ADRs, which we achieved of Rs. 5,287, will improve for the last quarter of FY16.

Just to summarize our discussion, on the financial front we reported an EBITDA of Rs. 5,835 million on a consolidated level at a margin of 44% and a PAT of Rs. 829 million for nine months ended 2016. Moreover, all detailed numbers and statistics and data are available in our presentation that we have shared with you but happy to take any questions.

And with this I conclude my opening remarks and look forward to furthering conversations and communications with you. And we can now take any questions that you may have.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session.

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

Puneet Gulati: Just wanted to understand is there any plans for launch of West Court and what is the timeline for that for Pune?

Pradumna Kanodia: While we are currently selling Fountainhead, which is part of our residential development at Pune and we have heard a lot of these regulatory changes, which allows higher FSI for developments to happen and the government is evaluating some of these rules and regulations. So we are waiting for some clarity to emerge and the potential then can be harnessed properly, so that we can maximize our construction potential there. So we may make take a little while before we finalize our plans. However, it could be another 4 months to 6 months once we have clarity in the kind of construction regulations for the SSI permissions that are required or the quantum that we can develop. So based on it, we will take it forward.

Puneet Gulati: And just on Fountainhead, the sales progress has not been very exciting. Can you throw some color on what is happening there?

Pradumna Kanodia: That numbers are there for us to see and the markets remain quite challenging, but it is a very small development for us. So we have decided to continue our progress with the construction rather than looking at selling it at the current price that we are getting feelers from the market. We believe it is an excellent product and we have the ability to really take the prices upwards once the market improves and once the construction is completed. So things are looking reasonably good on the construction front and in that context happy to not to sell large numbers but to continue with our focus on giving a product, which is really very unique.

Puneet Gulati: And so can you give us a sense of how much did you spent on construction this quarter?

Pradumna Kanodia: For Fountainhead for the current 9 months we have on an average spent around Rs. 3 crores to Rs. 3.5 crores per month so which could be closer to a number of Rs. 27 crores to Rs. 30 crores in FY16. And in the presentation, we have not put some pictures but generally, if you visit Pune you will realize that construction has reached a significant proportion and we hope to complete the work and the rest of the construction by the end of this calendar year before we move into the finishes and the rest of it.

Puneet Gulati: And not specifically Fountainhead the entire the residential and commercial hotels?

Pradumna Kanodia: On the entire commercial and residential portfolio, which largely is spread across Bangalore, which is our One Bangalore West, Kessaku; Chennai, which is The Crest Towers A, B, C, which are anyway nearing completion and almost ready for handouts now. And the third one of course Art Guild House at Kurla in Mumbai and the Fountainhead Pune, put together the numbers would be closer to around Rs. 150 odd crores for the 9 months so we have a current run rate of around Rs. 30 crores, Rs. 35 crores spent on our Bangalore project alone.

Puneet Gulati: Is it possible to share the sales break up between Crest A, B, and Crest C?

Pradumna Kanodia: Yes, we can share that. We have Crest C we have a total saleable area of around 285,000 square feet of which we have sold roughly 213,000 square feet. And for Towers A and B the total area is 243,000 square feet we have sold roughly 153,000 square feet.

Puneet Gulati: So Tower C, 153,000 square feet?

Pradumna Kanodia: No, Tower C, 213,000 square feet and Tower A and B we have sold 153,000 square feet.

Puneet Gulati: Okay can you also give this number in terms of these absolute sales so far?

Pradumna Kanodia: In terms of value, you are asking.

Puneet Gulati: Yeah, in terms of value.

Pradumna Kanodia: So if we look at Tower C, the value that we have achieved is around Rs. 170 crores and for Tower A and B the value is around Rs. 136 crores.

Puneet Gulati: So there was not much sale in A and B this quarter?

Pradumna Kanodia: Now we are just looking at handing over the apartments and at that time we will now get into the sales mode for the balance area, so you would have seen that the balance unsold inventory has remained pretty much at a constant for some time. And in that context we will be now looking up at faster intake once the product is ready with all the approvals and everything in place.

Moderator: Thank you very much. The next question is from the line of Abhishek Anand from JM Financial. Please proceed.

Abhishek Anand: My first query is I can see that you have bought back a stake in Bangalore, so what was our spent there?

Pradumna Kanodia: Generally, what happens is that we do not give out specific numbers for what we have purchased because there is a sort of a number, which is shared between us and the partner who is exiting. So at times, it does not work for the other side because they are not necessarily on the public side and they do not want the number to be made public as far as these transactions are concerned.

However, the fact is that we have purchased the entire 100% stake now belongs to us and Phoenix Hospitality which is our subsidiary company. So between the two, we hold 100% and it would be better if we do not disclose the numbers because, that is the way we have maintained it in the past.

Abhishek Anand: Could you give us the spent we have done for in general the buybacks during the quarter because we had a commitment of I think Rs. 120 odd crores in the last?

Pradumna Kanodia: In this quarter ending December there was a commitment of around Rs. 50 odd crores that we have completed and there is a balance of roughly Rs. 60 crores due in Quarter 2 of next year.

Abhishek Anand: And that is it?

Pradumna Kanodia: Yeah, and as far as my current stake acquisitions, we do not have any other commitments besides the Rs. 60 crores, which is falling in August of next year.

Abhishek Anand: My second question is regarding our St. Regis Hotel, if I am looking at our revenue rates I think it may have improved by 22% as you mentioned in your opening comments. However, on EBITDA level I am seeing it being flat as compared to the last year. Any particular reason for it or is it because of the service fees we are now paying to St. Regis, is that kicking in how is the EBITDA flat basically I am just trying to understand?

Pradumna Kanodia: So you are right in your observation. There are several reasons for that and primarily when a new operator, which is of a luxury brand, comes to manage your property, certain expenses tend to go up. So that is definitely one of the reasons why some expenses, which could relate to the personnel expenses, which could relate to the operating expenses have gone up. And there are expenses, which had to be taken to P&L on account of some of the minor property improvement that we did. So not everything that you did for property improvement could have gone into a capitalization mode, some of the minor expenses of Rs. 5 crores, Rs. 10 odd crores had to be expensed out in the 9 months' period.

Going forward, these expenses may not be repeated and you will see that the margins from now on will show an improving trend. We were trying to reduce the expenses to the minimum wherever possible and in that context, there has been a slight change because the new operator brings to the table a lot more things and of course, there is a cost which gets associated with that, like property improvement expenses. These expenses have been charged out however, these expenses will not be incurred in the future. If you take the base as this quarter and going forward compare the performance, you will see growth. Legacy, past performance and current performance is not comparable.

Abhishek Anand: Also last year during third quarter we had a different EBITDA number, I think it was roughly around Rs. 175 million?

Pradumna Kanodia: Yeah so, what we have tried to give here is that there is an operating EBITDA, which is at the hotel level and then there is a EBITDA, which is at the corporate level. So Property Tax, Insurance and some of the other corporate expenses which are not part of the or which are the responsibility of the hotel property owners those get booked at the Head Office and at the corporate level. So while the hotel asset has an operating EBITDA, which is more important for us to focus while the number that you probably saw last time around was at the corporate level, which factored in the property tax and the rest of it.

This is does not really show the actual performance of the asset because these property tax, insurance and some of the corporate expenses will continue to be there.

Moderator: Thank you. The next question is from the line of Perry Loong from Target Asset Management. Please proceed.

Perry Loong: My question relates to the office financial properties as well. In particular, the weak numbers or lack of numbers we saw from East Court in Pune and Centrium in Mumbai as well as the weak numbers in Phoenix Paragon Plaza in Mumbai?

Pradumna Kanodia: To answer your specific questions about East Court, Centrium and Phoenix Paragon Plaza; I think East Court is an asset which we have already completely sold. So there is no possibility of any further traction on that asset because the asset is completely been sold out and the residual amount which is unsold is less than a 1,000 or 10,000 square feet. So there is nothing much for us to sell in that place. Secondly, in Centrium also the entire area has been sold and now people who are actually the owners at Centrium are now leasing it out or using it for their own purpose.

So if you visit the office space at Centrium, you will find the occupancy to be very high at almost 75%. And that is really working well for us because it has a direct impact and bearing on the performance of the mall because the quality of the office growers and the people who visit the office is leading to a direct benefit to the mall where it gets impacted beneficially. And as far as Phoenix Paragon Plaza is concerned, yes you are right. There has been a slight slow movement as far as progressive numbers are concerned.

But the fact remains that the offices supply in Mumbai is now really showing a very sharp upward trend and the kind of deals that are currently in the pipeline will ensure that our office space within the Phoenix Paragon Plaza gets leased out very quickly. We have that stronger pipeline going forward and I think next 4 months to 6 months you would see a very high occupancy coming in there. So given where we are it is really not something which concerns us because we have seen the office off take being very, very significantly high and you would have also noticed that in Art Guild House we have leased almost 100,000 square feet in the last three months.

So this is the beginning of it, we hand over the office building in the next three months' time and thereafter the kind of pipeline that we have is very, very strong. So we believe that our commercial asset portfolio will show a very significant and robust growth from a leasing perspective. We have decided not to sell the office space because these are high quality buildings and we would rather retain the asset than to sell them. For the last 6 months, 12 months the movement in these assets were relatively low as this was by design and now with Art Guild House nearing completion, you would see significant up trends in both leasing as well as the price index from what we have been able to achieve till now.

Moderator: Thank you. The next question is from the line of Puneet Jain from Goldman Sachs. Please proceed.

Puneet Jain: My question is across all your malls if you see your occupancy rates have remained in the regions of 90% or so apart from Chennai. So is there any reason why the occupancy rate is not able to go beyond that number given the fact that most are very successful they have been operational now for more than two years?

Pradumna Kanodia: By occupancy rate, you mean the occupancy trading areas or the areas, which are generating rent for us?

Puneet Jain: Yes.

Pradumna Kanodia: So what happens that in a mall even if you look at High Street Phoenix, which undoubtedly is the mall of the country our occupancy range is generally around 92% to 94% and 4%, 5% always remains either churning or under fit out. This churn is beneficial as it allows new retailers to come in. In the larger malls, which is 1.1 million, 1.2 million or thereabout you will find that the churning is slightly more. We have the ability to churn out a few more retailers which gives us the ability to get new retailers in town to give space to them and that is the reason why in some cases you would see the occupancies at 87%, 88% and 89% but in Chennai if you see it is at almost 96%.

So I do not see that as a cause of worry because it is only because of our initiated efforts they are churning either by design or in some cases the contracts have expired. Therefore, the vacancy is very helpful for us because at times we are constrained on giving space because there is no place available at our malls. So when we have this kind of a 10% odd flexibility where we can look at some areas coming up for renewals or where the contracts are expiring we could have the ability to churn them and get some parties to move in or to shift within the mall one party can shift from one place to the other. So there is always going to be that 5% of vacancy and 5% of churning in some of these newer malls and that is the reason why occupancies will always be around that 90% or so.

Puneet Jain: Also your consumption rate in your malls has grown at a decent pace but still the question of e-commerce does it affect you in any way, could the growth of malls have been higher had e-commerce not picked up? So your malls obviously are in best locations, are possibly the best doing malls but what is your thought process as to how much of e-commerce affecting you?

Pradumna Kanodia: No, I think the e-commerce is an alternate way of reaching the consumer and it is always going to be there. It does not mean that the brick and mortar business is going to go out of business, soon or anytime in the near future. We have seen the e-commerce guys being there across the globe for several years now. It is the fact is that if you are the mall of the micro market or the mall of the city the ability of you to continue to grow clearly remains there. As far as India is concerned, organized retail is at a very very infant stage, at a very miniscule stage. There is a huge potential for us to grow.

Today if you look at the quality of retail assets in the country, there is a huge scarcity of that. It is not just about our 5, 6 malls but I think if you look at the overall mall portfolio across the country of A grade malls which can be called malls, there are far and few. So from that point of view, there is enough space for the e-commerce guys to come in and continue to sell. We all know what is happening with the e-commerce, the kind of discounting and losses they are running into is huge. There are a lot of churning already happening at their level, consolidation happening at that level.

So it is not that the run that they have had so far will continue indefinitely. They will also find the balance, they will also settle down somewhere. The consumer will have an option of going to a mall as well as the option of visiting a website and choosing. So it is just another alternate way of looking at it. It is not that it is a cheaper way of doing business because retailers find it as expensive or even more expensive to look at stuff being sold at the e-commerce sites. There is a question of discounting, there is a question of return, there is a question of logistics, there is a question of collection of money. So these are very expensive propositions. These are not cheap by any standard.

Today in a mall you know that you are paying a rent of say 300 bucks and you have an overhead of 50 bucks and you have salaries and other cost of say another x, you know where your cost stops. But in terms of e-commerce, you do not know where it stops. Majority of the e-commerce business today runs around electronics and mobiles, this category is very limited in terms of how well organized or a well-diversified mall looks like. The kind of spread that we have in our malls today caters to so many different things.

We have seen our consumption patterns; we have tracked our consumption across different sectors. If you look at the consumption across our malls, you have seen our food and beverage grow by almost 13% over the same period, our apparels has grown by 12%, the hyper market and departmental stores have grown by 10% while electronics have remained same in spite of what we believe about e-commerce. Therefore, the consumption trends clearly suggest that while e-commerce is welcome, it has replaced our experience that we have when we go to a mall.

At least I can speak on my behalf. I think it does not really change things. Yes, you have the convenience. If you want to buy a ticket for a movie you can go to one of the e-commerce sites and pick up your ticket but it does not mean that it really helps you because you have to finally go and settle down and watch the movie at the theatre. So it is something which will settle down, of course it reminds you of the good old days when video recorders had come into existence where people thought it was the end of the movie business as far as screens were concerned. And today we see multiplexes doing roaring business so each of the movies generating Rs. 200 crores to Rs. 300 crores of revenue. So it is a transition which every business goes through and I think retail as a business is not going to go away from fashion any time in the near future.

Puneet Jain: Sir, you mentioned apparels is at 11%growth?

Pradumna Kanodia: 12%.

Puneet Jain: This is linked to 9% growth in consumption across your various malls for Q3?

Pradumna Kanodia: Yes.

Puneet Jain: And in the last conference call you had indicated that the festive season was going on very strong. Would you have some comments to make on consumption in this quarter given the fact that you possibly get to see consumption trends vary fast across multiple categories. How is the consumption faring in this quarter versus previous quarter, has there been some slowdown, some exploration? Any broad comments, it would be very helpful?

Pradumna Kanodia: Yeah, so if we look at the consumption numbers for Q3 in terms of what we have spanned out I think the numbers are really very exciting. We have done business of over Rs. 40.8 billion for the 9 months ended 2016. And if we look at individual numbers I think HSP we would have done around Rs. 430 crores in this quarter and which would also mean that the growth has been phenomenal. Chennai we would have done just under Rs. 300 crores maybe around Rs. 290 crores; Bangalore around Rs. 245 crores, Pune at around Rs. 235 crores, and Kurla around Rs. 160 crores.

So these are some of the numbers that we have done as far as consumptions across our market within HSP is concerned and I think that is a very healthy trend. And of course now every season is a festive season, before we ended the Christmas we had the sales season starting. So January again was a very strong performance. So it will continue and of course the new retailers coming on board, new stuff being offered the cyclical nature of this industry is now more or less evening out. So yes, you will have your good seasons and slightly off seasons but the mall per se will continue to show an upward trend in terms of growth both on rents and in consumption.

Puneet Jain: So this double digit growth, which you saw in Q3 has continued in Q4 as well, so consumer sentiment has remained similar?

Pradumna Kanodia: Similar, yes. Well, we are in Q4, we have not covered half the distance yet but I think January was a strong good month and we believe that we should be able to improve upon our performance of Q4 of last year. Definitely we should be looking at similar growth trends for this year as well.

Moderator: Thank you. The next question is from the line of Sandipan Pal from Motilal Oswal Securities. Please proceed.

Sandipan Pal: Just one observation. When I just look at your trend of all MarketCity Mall's rental during FY15 was growing year-on-year at a 15% to 20% rate but now the yoy growth rate has come down to 1%. I understand that your occupancy has stabilized does it offer similar headroom to grow as when it was in the earlier days. From here if you have to grow, what are the various avenues, I mean you answered on the consumption part but what about the rental re-pricing, can you just throw some light on that?

Pradumna Kanodia: So if you look at the numbers that we gave you, in fact the consumption numbers or the rental growth or the trading density, which are the key metrics for understanding how the growth is panning out, trading density of High Street Phoenix currently at 3,000 plus your rental at Rs. 300 plus your occupancy at 93%. All these trends are nothing but a trend to suggest that we will continue to grow. Our rental income for the 9 months of FY16, which was at Rs. 5.3 billion actually is a 7% year-on-year growth as compared to what we did in the 9 months of the last financial year.

So as I said each center growth at a different number. Some of the centers are growing at 13%, 14% and some of them are growing at 15%, some of them are growing at 11%, 12%. So the growth is there. So averaging out and of course one has to keep in mind that there are those renewals, which will keep happening as we move forward. Pune has seen a large chunk of this renewals currently under way. So by the time we close this financial year, almost 30%, 35% of the area at Pune would have got released. The impact of that you will see may not in the first quarter but from the half of second quarter of 2017 you will start feeling the impact of the Pune renewals. Then you have the large chunk of renewals coming up in Bangalore and of course in Chennai a year after that and Kurla and just being continue to renew almost 18%, 20% of the churn every year.

Therefore, these are numbers are staggering and the growth is not just coming out of increased consumption, it also comes from the fact that you are able to mark-to-market our rents and that is the way a huge plus as we keep moving forward. And that is something, which needs to be factored in as we move forward. So you may find one quarter the growth between 9% and 8% or 7% but suddenly you will find in the next quarter the growth coming to 13% and 18%. So it evens out to a very healthy growth in strong double-digit numbers.

Sandipan Pal: Yeah, so just to clarify I mean I can just assume that a major portion of the pricing which are yet to be done, we are on track on that and there is no issue at all from the retailers side to fix it or reset it in mark-to-market level?

Pradumna Kanodia: No, in fact we have a problem, which is a problem of scarcity. We wish that we knew that our malls would be so successful we would have added maybe another 200, 000 square feet of space in each of these malls and we could have given space to some of the retailers who are still in the queue. Definitely, in Pune numbers are satisfying for us. The 33% odd renewals that are happening without going into specific deals I can say that the minimum guaranteed rentals for the bulk of them is going up by almost 50% plus.

The revenue share percentages also are going up by 2% or 3%. So the deals have really been very, very phenomenally good for us and that is the impact that I was referring to, which you will see from May and June of 2016 onwards. And that is going to really continue with our growth journey and Pune will continue to grow not just based on the increased consumption but also based on the fact that your rentals would have moved up significantly upwards by that time.

Sandipan Pal: One more thing is that, given that our debt level is reasonably high right now and we have the development portfolio, which can offer lot of cash flow, is moving relatively at a slower pace because of the market dynamics. So under these two circumstances what will be our plan for similar kind of integrated project to replicate that kind of model in future?

Pradumna Kanodia: If you would see that almost 95% of my debt pertains to the lease rental or on my hotel assets, which are like the annuity income model, which is repaid over a ten, twelve year period of time. So these are long term long drawn loans, which allow you the flexibility to pay what you wish to pay. You have cash flows, which are still available beyond that for your growth and other requirements. You have interest as a cost, which allows you to take benefit from the income tax in terms of cost, which is allowed as a deduction.

So instead of not having debt and paying a larger income tax, you have the benefit of close to 11% reduction in cost as compared to the 30% or 34% effective tax rates. I am actually landing up paying an effective interest of maybe 8%, 8.5% depending because in my hotels we still have book losses. So there the cost may remain where it is but for the other assets my cost of borrowing actually comes down because effectively I am getting the tax benefit out of that.

So if I have virtually a zero debt or a very miniscule debt on my development portfolio, which is my cash cow in terms of large chunks of money coming out from there. It gives me the ability to look at growth to be funded by the cash that gets generated here. We are going to be very, very seriously looking at the cash that comes out of here and how we deploy it. But from a debt profile point of view and the number I think we are very comfortable.

Whether you look at the interest coverage or whether you look at the debt equity or whether you look at the cost of borrowing, all these parameters are very comfortable for us and of course there is no desire for us to significantly increase any of these debt numbers. But we believe that our balance sheets of our development portfolios have enough strength both on the current as well as on the future cash flows to look at debt to be raised if required for any growth opportunities that may come our way.

Moderator: Thank you. The next question is a follow up question from the line of Abhishek Anand from JM Financial. Please proceed.

Abhishek Anand: Just on Kurla Mall. As you mentioned Pune has a 35% renewal, Kurla also has some 16% renewal I think in FY16. So how has been the response in Kurla Mall, are we seeing better rent reversions or rents are stable there and how has been the overall response in general for this space?

Pradumna Kanodia: So I think it is very important to understand if you look at the number that we disclosed in the last Q3 of FY15 you would have observed that my EBITDA was very low and even in my first quarter or second quarter of this year my EBITDA numbers were low. Primarily because there was a lot of credit notes and write offs and provisioning that we had done for our legacy debtors those retailers who had initially joined us and were really struggling to do business.

We also realized that and we had to provide for some of those numbers. But in this quarter we have seen our EBITDA margins increasing improving to 88%. So what I am trying to tell you or guide you in the direction is that some of these rentals, which were getting discounted because they were not paying, now at least they have started paying us at the current market. So while the earlier rent was maybe just an example at Rs. 100 per square feet and he was actually paying me Rs. 40 or Rs. 45, now in the revised form if I have renegotiated and I have brought those areas under renewals he is paying me Rs. 85 from the same area.

So effectively there is a growth from the old rates from the actual paying rate but yes, the contracted rate may have remained in the same regions plus or minus 5%, 10%. So if it was Rs. 100 it could have moved to Rs. 110 or it may have come down and settled at Rs. 90 depending on how the last 4, 5 years has been for the retailer. So I think for Kurla as a center, the consumption, the trading density and the occupancies are the three key criteria which gives us the comfort. Consumption has been at Rs. 158 crores, which again has been historically the highest performing quarter for us. Trading density at 855, is again the highest trading density that we have seen and occupancy remained in that 87%, 88% very, very exciting for us.

Some of the new entrants to the country without taking names are now have finalized their plans to take up positions at Kurla, which will only increase the quality of retailers who come in and as a result of that we see higher consumption in the annual. In addition, Art Guild House and the other office surrounding areas have also seen qualitative off take by corporates and by end users, which will change the profile of the entire development.

Today if you look at Art Guild House, Phoenix Paragon Plaza and Centrium between these three centers you have almost 1.2 million square feet of office space that will in our belief will get almost 100% occupied by say end of FY17. In that context, if you are looking at 1.2 million square feet getting occupied I think there would have at least 8,000 to 10,000 people using it on a daily basis or even slightly higher number. So if you have that kind of people visiting that mall, that kind of corporates using it the mall is going to be absolutely rocking.

I think we have done a lot of effort, we have put in lot of energy in terms of the planning, the way the marketing efforts are being initiated, the way our events and other sponsorship in terms of what we are doing at our mall, the kind of F&B that we are getting in. All these are things, which really point into a right direction that the performance will improve. Yes, retailers who have been there with us for the last four-and-a-half years when the time comes for them to negotiate I think it will be fair for us to give them the benefit of the underperformance for the first two years.

But I think currently the market will have to or we will have the ability to at least get the correct price for us in the current context which may really give you the comfort that my margins become 88%, 90%, 95% and my collections also keep speed with that.

Abhishek Anand: You mentioned that you took some CAPEX for Kurla during this quarter, some renovations or something?

Pradumna Kanodia: Yeah, but these are minor numbers, these are not really numbers which make a difference. So if you do a mall upgrade you probably change some flooring, some areas you would change the facade or some lighting and all. So these are numbers which collectively in a year's time may not be more than Rs. 5 crores. Rs. 6 crores so it is not the number that makes a break, it is not that.

Abhishek Anand: It is the general maintenance?

Pradumna Kanodia: Yeah, it is not like we are spending Rs. 50 crores or something.

Abhishek Anand: And then we also heard something in Maharashtra being passed, which gives 50% extra FSI to retail. Do we have more details on that and how Phoenix could benefit out of that policy?

Pradumna Kanodia: As I said in my earlier remark also on Pune and other developments of Maharashtra, I think we are anticipating a very positive move as far as the policy regulations are concerned whether it is pertaining to the retail side of the business or on hospitality or even on the construction of offices and residential development. You would be aware of several discussions or several whitepapers that the government has been publishing or have got to the market for discussions with the builders etcetera.

These are all things, which are a very positive for us. However, until the government announces a regulation, which implement these thought processes, I think we are still at an initial stage of discussions. They have not been implemented or they have not been regulated or they have not been converted into regulation as of now. And they are not statute, so till that time we cannot really comment on them. But we are happy to see some of the progress or some of the thoughts that are being put here, which will be in the larger interest of both the developer community as well as the consumer community. It is in the larger interest that these policy changes are happening.

Abhishek Anand: Because the one, which I am mentioning to you was approved by Maharashtra cabinet?

Pradumna Kanodia: Yeah, but I think it is just an approval, it is not yet implemented. So the Gazette and notification is yet to be implemented. But yes, these are positive signs but I think we have seen in the past that between the time the approval comes from the Cabinet and the time it gets passed in the appropriate authorities it takes a while and there could be many slippages as well.

Moderator: Thank you. The next question is a follow up question from the line of Puneet Jain from Goldman Sachs. Please proceed.

Puneet Jain: I have a couple of questions. First, is what is your construction cost for Kessaku now?

Pradumna Kanodia: When we look at our construction cost, which does not include land because land was paid for when we acquired it. And the kind of offering that we have, which is a super luxury development, which we call Villas in the Sky, I am sure you have visited the development in some point of time and you would have seen that how things have spanned out. So clearly it is an offering which is significantly upscale in nature, so the cost has to be in line with that.

So if you were to ignore the land cost approval and the marketing and the rest of the cost where you would realize that I would probably be spending close to Rs. 4,200 per square feet, which will include the clubhouse and the other amenities that go with it. So on the construction piece it will be closer to Rs. 4,250 or so.

Puneet Jain: Including approval cost and marketing cost?

Pradumna Kanodia: I would say if you look at my total cost including land, approval and everything including my preliminary expenses, my selling cost, my brokerages etcetera whichever is part of my entire effort I would probably land up spending close to Rs. 7,500 for the cost including land, TDR anything and everything that goes with it.

Puneet Jain: Okay and the land cost would be in the region of Rs. 1000 a square feet to your land cost?

Pradumna Kanodia: Well, there is a TDR and other cost, which gets associated. So I think we can share the numbers specifically otherwise.

Puneet Jain: So what is your stake in the project now because if I look at the presentation, you mentioned that 100% stake in one project and 100% stake subject to some shares held by Phoenix and its group companies? So what is the effective stake in this project now?

Pradumna Kanodia: So while we have 100% through Phoenix Mills and Phoenix Hospitality these companies which collectively hold 100%. But if you look at the effective stake of Phoenix because Phoenix Hospitality is also a subsidiary of Phoenix so collectively if you look at the effective stake of Phoenix it will be closer to 80%.

Puneet Jain: How much do you own in Phoenix Hospitality?

Pradumna Kanodia: Around 57%.

Puneet Jain: And Bangalore Mall is 100% owned?

Pradumna Kanodia: Yeah, Bangalore is a 100% of Phoenix Mills.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing remarks. Over to you.

Pradumna Kanodia: Thank you everyone for joining this quarter's conference call and we look forward to seeing you at our quarter 4 conference.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Phoenix Mills Limited. That concludes today's conference call. Thank you for joining us and you may now disconnect your lines.