Phoenix Mills Limited
Q2 & H1 FY2016 Conference Call
November 6, 2015

Moderator: Ladies and Gentlemen, good and welcome to the Phoenix Mills Limited Second Quarter and First-Half of FY2016 Earnings Conference Call. All participants' lines will be in the listen only mode. And there will be an opportunity for you 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 phone. Please note, that this conference call is being recorded. At this time I would like to hand the conference over the proceedings to, Mr. Pradumna Kanodia, Director Finance and Over to you, sir.

Shishir Shrivastava: Thank you, good afternoon ladies and gentlemen and thank you for participating in the Phoenix Mills Limited conference call to discuss the second quarter and first-half of FY16 results. I am Shishir Shrivastava and Mr. Kanodia is here with me along with some of our other colleagues.

We reported a consolidated income from operations of Rs. 8,183 million in first-half of FY16 which was higher by 9% Y-on-Y. Rental income from malls remains strong at 5.5 billion with a Y-on-Y of 9%. There was a 40% Y-on-Y growth in hotel revenues of 930 million in first-half of the year. Consumption at our malls grew at approximately 12% year-on-year in the first-half of FY16 and was at 26.3 billion.

At High Street Phoenix and Palladium consumption in the second quarter was high at Rs. 3.8 billion and trading density was at Rs. 2,712 per square foot per month which was 10% year-on-year. There was a 15% year-on-year growth in rental rate per square foot per month of Rs. 287 in the second quarter.

Amongst our Phoenix MarketCities, Phoenix MarketCity Chennai continues to lead with high consumption at Rs. 2.9 billion where the trading density was Rs. 1,625 per square foot per month and rental rate per square foot per month was Rs. 111 in the second quarter. At PMC - Bangalore in the second quarter, we saw a year-on-year consumption growth of 14% to Rs. 2.3 billion and 16% year-on-year growth in trading density arriving at Rs. 1,354 per square foot per month. Rental rate per square foot per month was Rs. 90 for the same period. PMC - Pune in the second quarter saw a year-on-year consumption growth of 12% to Rs. 2.2 billion and trading density was at Rs. 1,076 per square foot per month and a rental rate per square foot per month of Rs. 88 in the second quarter. We are continuing with our efforts to improve consumption PMC - Kurla.

Moving on to our development portfolio. During the first-half of FY16 we sold 2.2 lakh square feet for sales value of Rs. 3.3 billion reflecting an average price realization of Rs. 15,022 per square foot and recognized sales of Rs. 686 million. In Crest Chennai we have started giving possession of apartments in Tower - C and Tower - B and the project is expected to be complete by year end. One Bangalore West Sales and Kessaku have had steady sales during the year.

Moving on to the hotel's business the Palladium Hotel in Mumbai was branded as St. Regis Mumbai on the 1st of September. We are seeing a gradual increase in the rates and revenues from food and beverages. We reported an average occupancy of 63% with an ARR of Rs. 8,497 in the second quarter.

On the financial front we reported a consolidated EBITDA of Rs. 3.71 billion and a PAT of 501 million in the first-half of FY16.

With this, I conclude my discussion and would like to address any questions that you may have.

Moderator: Thank you very much, Sir. Ladies and gentlemen we will now begin the question-and-answer session. Anyone who wish to ask any question, may press '0' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to use handset while asking a question. We request the participants to limit their question up to one, if you have a follow-up question request you to please rejoin the queue. Ladies and gentlemen we will wait for a moment while the question queue assembles. Thank you. First question is from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand: My query is regarding Kurla mall. Firstly on the trading density and consumption if I am looking at both of them I see a consumption decline of 2% whereas the trading density is increasing by 15% any reason for this?

Management: In this last quarter we have seen that the loading between saleable and carpet area has also changed and that has taken our trading density up. While consumption overall may have had a slight dip and occupancy has reduced marginally.

Abhishek Anand: So basically I am just trying to see that this 15% seems to be bit on the higher as compared to our decline just trying to understand which number should we following the consumption on the trading density?

Management: I think the trading density is the correct parameter to understand the performance of the space. If you see the consumption has reduced slightly yes, the reason why the trading density has gone up is because of change in the loading so, therefore what has happened is there has been slight drop in occupancy and also the loading has changed where your leasable area had increase but trading density is calculated on carpet area.

Abhishek Anand: The number of stores remain the same at 310?

Management: That is right.

Abhishek Anand: Okay, fine. Then again on the Kurla's receivables, the numbers which we mentioned in our notes to accounts. Are these net numbers that means net of provisioning or at a gross level?

Management: Sorry, Abhishek, can you repeat your question once again?

Abhishek Anand: So basically in our notes to accounts we give receivable number for Kurla mall, receivables greater than 60 days.

Management: Correct.

Abhishek Anand: So that at present is almost Rs. 566 million so, I am just trying to see whether it is a gross number or net of provisioning?

Management: This is net of provisioning number.

Abhishek Anand: So are there any provision reversals during the quarter?

Management: We look at all our debtors on a regular basis. So on a specific case there may have been a recovery which may have required us to revert but generally it is not the case. Largely we look at the additional provision that we have made during the current quarter which reflects the actual receivable position as of the end of day.

Abhishek Anand: Because at the end of first quarter we had a receivables of 596 million now it has come down to 566 million despite us making an additional provision of 76 million. So just trying to see whether they...

Management: So when you look at the debtors you have to factor in the opening debtor, i.e. the billing that you have done in the period, the collections that have happened and the additional provisioning that you have done. This will give you the closing balance. If you look at the corresponding two numbers opening and closing, it is not too much a of a difference some debtors may have increased and you would have provided for some other debtors and as a result of which the 59.6 cr and 56.6 cr numbers are appearing here.

Abhishek Anand: Sure, okay. Just this last question and then I will join back the queue. On the stake buyback I see that you have acquired stake in Phoenix United. Can you give the reasoning behind that? Because I do not think so we had an SPA there or at least we did not know about the SPA and also the total CAPEX we have incurred or total buyback amount we have spent during the quarter.

Management: So there was no SPA signed previously in the case of Phoenix United. This was an opportunity that we saw where one of the co-promoters wanted an exit and we saw that it was a good option considering the potential of Lucknow mall, Bareilly mall and also the Agra Hotel. So, that is how we decided to pass our stakes there.

Abhishek Anand: Okay. And the total CAPEX for buybacks we have done during the quarter? Stake buyback across subsidiaries?

Management: While you would have realized all our payments that we have against these share purchase have been staggered in their manner so depending on the tranche that was due in the particular quarter we would have made payments. So between these three or four contractual obligations that we had, we would have paid roughly around 190 odd crores in the last three months' time.

Moderator: Thank you. Next question is from Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain: I have got a couple of questions. First is that, if I got to slide number 12 that is on the debt side so there has been some increase in debt in Chennai MarketCity as well as in Bangalore MarketCity with respect to the last six months. What would that be for?

Management: Yeah, so basically if you look at it in the Chennai, there is an additional requirement of premium to be paid for which we have the CMBS structuring. The refinance will allow us to complete the transaction which also increases some of our sealable and leasable area in the total development. So a part of that was our balance requirement is being met through this additional loan facility. In Island Star what we have refinanced the earlier loan to get a better pricing and also we are now soon going to launching the Oberhaus for which we have created this line of credit and for that purpose we have kept this funds available depending on the requirements. This will become a 100% subsidiary and it helps us to reduce our cost of borrowing because the pricing has been 10.9% for this loan at Island Star which will allow us to use any surplus that we may have for any of our growth opportunity.

Puneet Jain: Okay. So what was the premium you paid in Chennai property and how much area does it increase by?

Management: So while we have not paid anything, the demand letter is expected soon and once the payment is made roughly about 97 odd crores will be paid for the developments of the mall as well as the residential tower that sit on the top of it. On the area so I think offline Varun can give you the specific details in terms of the area is getting added to that.

Puneet Jain: Okay. So once area is added you will have a subsequent either mall expansion on one more phases of residential project?

Management: It is an addition to the existing facility which we have planned accordingly.

Puneet Jain: And your debt for standalone was not up in spite of payment of 9 billion in this quarter. So how was that funded?

Management: As you would have realized that there were internal accruals, some part was from the additional top-up facility in some of our companies and the One Bangalore West project had a lot of cash available, we are now 100% shareholders at One Bangalore West. So we have used a mix of all these funds which were available with us.

Puneet Jain: Okay. And just finally one small question, you have a 7% vacancy because some area in under fit out at High Street Phoenix?

Management: Yeah.

Puneet Jain: So are you earning any rental on it as of now? And what will be the expected rental, is it similar to current run rate or higher?

Management: So Puneet for area which are under fit out contractually you may have a rent free fit out period of a month or two or depending on the size of the stores. Subsequent to which your rentals start. So for areas which are under fit out those are already under contract with the fixed date for the rent to commence irrespective of whether the fit outs are completed or not.

Puneet Jain: So has it commenced or I am just trying to estimate that based on current rental rate what will be the steady state quarterly revenues for the company. Out of this 7% how much would we currently paying revenue?

Management: Puneet that will be a very small number and even if it is there it maybe for only say 10 days - 15 days it may not be for the entire three months of that quarter. So one needs to ignore these small churning and the fit out period during which whether we earn that small amount or not. I think one needs to look at the holistic picture and look at a full quarter rather than looking for that 15 days - 20 days rents whether they are generating any revenues or not.

Puneet Jain: So the right understanding will be that the 7% was not earnings any rent. And therefore, when it comes up it will earn the average of the mall. .

Management: It may not have been vacant for the entire quarter Puneet because during the quarter you had at some time the highest vacancy of about 7% which was because some area was under fit out.

Puneet Jain: So can you help me that what could be the quarterly run rate that four quarters from now for High Street Phoenix? What is the best way to think about that?

Management: I did not understand your question, may I request you to repeat that?

Puneet Jain: Like in Q2 your income from operations in High Street Phoenix was 869 million so, there are two drivers to this increase one is that the renewals and the second is that some portion is currently not earnings rentals. So one goes over the course of next 12 months what is the increase that we can expect on this number?

Management: So, I do not know if I am allowed to give you a forward looking number like that Puneet but let me just explain a few things to you here. First and foremost the areas which are under fit out when they resume or when they commence operations there I mean I estimate that the rental per square foot is going to be much higher than the average that we are earning today. And during the course of the year you will have other spaces where the contract will end and those will go into fit out and when they commence operations you will start earnings rental much higher then what they were generating prior to the contract lapsing. So this is an ongoing process in every mall where you will see every year you will end up seeing maybe 14%-15%-16% of churn happening on account of contracts getting over and new contracts commencing during which period typically depending on the size of store you may have one month to two months of rent free fit out period.

Puneet Jain: Okay. And what will be the marginal rate when these are being replaced what is the typical rate which you have got in last couple of quarters?

Management: So I would say there has typically been 31% increase in the last quarter in the new deals. This is only in the minimum guarantee, there will be a further upside in terms of revenue share.

Moderator: Thank you. Next question is from the line of Saurabh Kumar from J.P. Morgan. Please go ahead.

Saurabh Kumar: What is the amount of money which is still left for buying out the minority interest?

Management: We have roughly about a 110 crores - 115 crores to be paid.

Saurabh Kumar: 115 crores, okay.

Management: Up to August of next year.

Management: Yeah, we have time until August next year.

Saurabh Kumar: Yeah, so 115 crores is more to be paid, okay. And when does this Shangri-La's the stake convert down to 5%?

Management: May I request you to repeat your question Saurabh?

Saurabh Kumar: So, Shangri-La I mean I understand this was a CCPs structure and this will convert down to 50% to our interest when will that happen?

Management: It is the St. Regis Hotel before that it was…

Saurabh Kumar: Sorry, St. Regis. Yeah, sorry.

Management: In that asset when the debentures of the other investors convert we will come down to about 58.5%.

Saurabh Kumar: So when does that conversion happen?

Management: So this will be after the first quarter of FY17.

Management: It is up to the company any time after 1st April 2016 it can decide to convert. There are provisions and clauses in the agreement.

Saurabh Kumar: Okay, thank you. And just one additional question on this Kurla mall I just want your thoughts so as I see my sheet and I am looking at your rental income from Kurla since Q1 of FY14 frankly the EBITDA and the rental income has broadly stated at the same level but your EBITDA has consistently come down and this has happen across several quarters. So I am just wondering what has been in your view the issue with this mall and what can you do to fix it?

Management: So I would say that the numbers are reflective of certain changes that we have made there and we are effecting that change and we have actually seen the positive outcome of that change. There were several stores that we have to move out bring in some new brands convert several smaller stores to large format F&B stores which is driving more footfalls into the place and consequently we have seen steady growth in terms of the trading density. I think for us that is the parameter to determine the performance of the mall. So if you actually look at trading density growth from growth from say Q1 FY14 to Q2 FY16 there is been significant jump there, and I would think another two or three quarters is when we will be able to see the complete changeover of these places we are talking about.

Saurabh Kumar: Okay. And at that point of time hopefully both your rents moves up and this margin which is 50 over percent at least reverse back to something like 90% right?

Management: So this EBITDA margin if we say percentage of rental income that is because of provisions and credit notes that have been passed that is showing this otherwise I think we should be back to the 90% may be in the next quarter or after next two quarters. This is a legacy issue outstanding that we have as measure of good practice decided to provide for.

Moderator: Thank you. Next question from Sameer Kasbekar from Emkay Global. Please go ahead.

Participant: Just want to understand that consumption growth has come down to single-digit during the quarter, is there any particular reason for that?

Management: If you look at the previous quarter, are you talking about last year same quarter or you are talking about…

Participant: Year-on-Year across the mall portfolio?

Management: Yeah. So I think you are referring to our slide number seven, is that right?

Participant: Yes, it is correct.

Management: Okay. Typically if you look at the period of July-August-September that is the period for sales in retail end of season sales and we have always seen a huge spike in consumption in that quarter. All brands in fact end – of - season sales in July and August. So it is during that period where sales reach at certain peek because of which we have seen an 8% growth this year. I guess that is standard for this period but you will, I think it is overall consumption for the year will should be much higher. If we look at the half-year it is up by 12%.

Participant: My second question sir is how do you see the trends since beginning of October? Or during the festive period can you give some color on that?

Management: So here again if we look at the trend October-November-December are probably some of the best months in retail, you will again see the peek in this period. What we are seeing at our Malls from the performance in October, has been very positive.

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

Abhinav Sinha: Just taking from previous caller the consumption growth in the festive season on a Y-o-Y basis is it fair to compare? I mean are you like asking double-digit again?

Management: For this year, I think we have only seen October right now, the performance of October and those numbers are yet to really formally come in from all the retailers but I would think that it is defiantly seasonal Abhinav but it is also like, two years ago Diwali was **dead** that day and last year it picked up significantly, this year we are seeing much more traction in the first month itself. So I would say that yes a double-digit during this period should be possible.

Abhinav Sinha: And impact of e-commerce?

Management: We are not really seeing that per say, because we are not really seeing any consumption drop even if we go category wise we look at Apparel and Fashion; for this particular quarter there is been growth of 13% from the previous year. Department stores has gone up by 14%, Electronic is slow where the growth is only 3%.

Abhinav Sinha: This year saying for the second quarter right?

Management: Yes.

Abhinav Sinha: Okay. Sir on the Kurla mall again can you quantify the write-off our set-off you are taking on an ongoing basis this year which are sort of impacting the performance?

Management: While we continue to review our debtors on a regular basis and wherever we conclude are discussion or where ever we reach near sort of a conclusion for settlement of the issue we start providing for it because then the clarity emerges as to how much will be need to written-off and how much will be recovered. So this effort and exercise will go on for another six months to eight months before we completely clear off all the legacy issues that are there since the beginning of the mall and thereafter I think we would be on the right path where our billing and collections will start matching up. So my guess is that there is no standard number that we have assigned. In this quarter we will write-off 10 cr we will provide of 10 cr. These are based on actual facts and actual discussions and negotiations with the parties. So as I said, another two quarters to three quarters will be the time frame in which we should be clearing off the entire old issues and then we would have a clean slate to then start working on.

Abhinav Sinha: Right. Can you also give us the net debt numbers on a console basis and explain how the cash flow has moved in last six months?

Management: Difficult to answer the question how the cash flows has moved but the debt today as on September end was around 3,650 odd crores on gross level and there would be cash or cash equivalents of around 300 odd crores so we would be close 3,200 or 3,250 in terms of net debt position on consol basis. Largely the CAPEX requirements if you look at it the residential developments or developments which are on the sale model take care of their own cash flow requirement there is no additional need significantly on those areas from a debt point of view, some of the debt that we have taken today takes care of the requirement that we mentioned about the premiums et cetera that we used to be paid or also some of the internal accruals and a small debt that we took across some of these development have helped us in meeting our obligation towards the share purchases that we had entered into with various of our private equity partner. So largely the CAPEX requirement in this period is split and accordingly the money has been utilized. So internal accruals, debt would take care of our requirements towards the stake purchases. We also would be looking at keeping some money for new acquisition and growth opportunity as we move forward.

Moderator: Thank you. Next question is from the line of Nitin Idnani from Axis Capital. Please go ahead.

Nitin Idnani: I had two questions, one is just housekeeping question when do you expect Kessaku to come in for revenue recognition?

Management: Well should be almost doing it in March but we may miss it because as per our current projections it is most likely to be spelled over to April so I will be all little conservative we should look at first quarter of 2017.

Nitin Idnani: Sure. Also, secondly you did mention that renewals are happening at 31% on minimum guarantee but I am looking at your slide 20 and this is more particularly from the Kurla mall we have almost about 43% of the space coming up for renewals. I was hoping you could actually share some examples of how the renewals have happened so far at Kurla I mean you had 15% in FY16 as well are they happening at lower rates considering there have been a certain amount of sluggishness at the Mall or are you seeing a similar kind of growth in renewals over there? Some examples of that would help.

Management: In FY17, I think it is important to understand that this Mall has seen some growth in terms of consumption and there are several new deals that we have already done in this year where we have brought in some newer brands and there are some stores that have been exited from here. I think by the end of this year we will have completed all the legacy issues pertaining to giving stores the credits on previous dues and settle all those issues that we had in the first year of operations which is actually what is carrying on till date. Now in terms of renewal we see a significant potential here we will be able to definitely see an increase in terms of the rental rates we are confident of that the stores are there performance have now improved and there are some newer brands which are also moving in. So I think it will be probably by the end of the first quarter of FY17 we will have a much clearer picture on the renewal rates that we will have achieved for the stores that are renewed at that point and time. We remain confident to see an escalation in terms of the minimum guarantee rentals. Also the revenue share component is starting kicking in now. So that is a good indicator of….

Nitin Idnani: Sure. Any example that you can share of the last renewal done here without taking the name of tenant obviously?

Management: If you remember this mall commenced operations only November 2011 so the first five year cycle will end only in November and thereafter. So in the first quarter we will be able to see some renewals I can definitely tell you that we had some store that were vacated and we have brought in newer brands or newer formats in which have seen probably a 14%-15% increase in terms of rental from what the stores were paying earlier.

Moderator: Thank you. Next question from Abhishek Anand from J.M. Financial. Please go ahead.

Abhishek Anand: Firstly on St. Regis hotel, are we seeing improvement in occupancy and ARRs post the rebranding of the hotel to St. Regis?

Management: Yes, of course we have seen an improvement in the ARRs and the occupancy as well and with this brand we have got an access to the global networks to sell rooms, which earlier we did not have, we were on a limited GDS now it has opened up the window for us to get into contracts with several multinational companies which have their mandate to only enter into such RFPs with global change. So this will see a cascading effect I think over the next few months. But we have seen the increase in ARRs. If you look at last year to now there is Rs. 500 - Rs. 600 increase in any case and also in occupancy there is a 10% growth.

Abhishek Anand: Perfect. And secondly, on Chennai mall I think this has been performing very well so just trying to understand there the revenue share is a certain percentage lower than usual because I am seeing the consumption increasing at a faster pace than the rental increase. So basically since the renewal profile is queue towards FY18 should we assume 5%-6% rental increase or the revenue share clause is really kicking in now as the trading density consumption is at high?

Management: So in this mall particular I think the minimum guaranteed rent was anyways higher and you are saying I think the MG average is about Rs. 95 to Rs. 98 a square foot whereas what we are driving is 110 in terms of average rental per square foot. So that is the delta between minimum guarantee and the revenue share component there. We believe that defiantly you will see a significant hike in terms of MG rentals and also on the revenue share component when we do renewals.

Abhishek Anand: So that will be FY18?

Management: FY18 is when you will see about 50% or more of this mall coming up for renewal, also what we have observed in our other malls where we have seen renewals happen is that, not only is there as increase in the MG but there is also be an increase in the revenue share component. So we are quite happy or rather we are quite confident that we will see similar trend here in terms of renewals.

Moderator: Thank you. Next question is from the line of Sameer Kasbekar from Emkay Global. Please go ahead.

Prashant Kutty: Hi, sir, this is Prashant Kutty. I just have one question on the consumption, sorry for repeating this again. But sir if we look at the trend for the coming quarter which is Q3 I believe that the base on the consumption growth seems to be pretty high. Do we look at basis over here when we look at the consumption growth because if you look at the HSP, growth in Q3 last year was 21%? And if you look at the overall consumptions growth almost about 30%, I do understand we have a fairly strong festive season coming up but if you could give your thoughts on the same?

Management: I would say that, if we look at the trading density at High Street Phoenix in the last quarter it was 2,700 plus. Now this is a mall which has reached a certain level of maturity. All our other malls which are in 1000-1500-1600 range they have to catch up to 2700 of Phoenix. Now if you look at the festive season coming up you will see a spike. If you compare to last year as you rightly said the base is high so may be in terms of percentage it may not be very high but in absolute value on consumption there will be an increase for sure. In the other Malls we are seeing stable operations, we are seeing significant traction right from start of the year. I would expect that since the base is not very high there will be a significant jump there.

Prashant Kutty: In that case could we say that probably in case of HSP a 7% to 8% consumption growth number would be a more sustainable number over let us medium-term in that case the right assessment?

Management: No I think there is again, you know at HSP…

Prashant Kutty: If we look at the trading density part.

Management: No, if you look at HSP historically I mean it has been operating in the form that it is for the last six years with Palladium having opened in 2009. If you look at the consumption and therefore trading density that continues to grow simply because we have constantly kept evolving the Mall; there has been changes in brand names, there are newer more aspirational brands that have continued to drive the growth. So I think your guess of 8% is as good as mine of may be 12% or 14%. With High Street Phoenix in fact the country is seeing new bench marks being established and thresholds been broken. So I do not know if it is appropriate to really try and determine what the growth will be but I can tell you that we are defiantly getting in some very exciting brands here which will show a significant improvement or increase in consumption and trading density.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand it over back to the management for closing comments. Over to you, sir.

Management: Thank you all for joining in on this call, we wish you a very Happy Diwali and New Year. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, with this we conclude today conference call. Thank you for joining us. You may now disconnect your lines.