Phoenix Mills Limited
Q4-FY15 Conference Call
May 29, 2015

Moderator: Good day Ladies and Gentlemen, I am Saurabh Deep, the moderator for this session. Thank you for standing by and welcome to the Phoenix Mills Ltd. 4th Quarter financial 2015 results discussion. For the duration of presentation, all participants' lines will be in listen only mode, we will then have a Q&A session after the presentation. Now, without any further delay, I would like to hand over the proceedings to our speaker for today, Mr. Shishir Shrivastava, thank you and over to you, Sir.

Shishir Shrivastava: Thank you. Good evening ladies and gentlemen and thank you for participating in the Phoenix Mills Ltd. conference call to discuss the FY15 results. I have my colleague, Mr. Pradumna Kanodia – Group Director for Finance as well attending this call. We trust you have received the FY15 investors' presentation which was circulated and uploaded on The Stock Exchange and company's website. We can see performance for our annuity assets and the development portfolio has been consistent in the positive and economic environment. We reported a consolidated income from operations of Rs. 16.5 billion and EBITDA of Rs. 7.6 billion. This increase is due to higher consumption at our retail assets and continued robust sales of our residential and commercial projects. During FY15, we had a high consumption growth in our retail assets portfolio, with a year on year growth of 14%. Consumption at High Street Phoenix and Palladium increased by 8% year on year to Rs. 14.4 billion; this translated into a strong trading density of Rs. 2,618 per square foot per month, up by 14% year on year. Amongst Phoenix MarketCities, Phoenix MarketCity Chennai continues to lead with year on year consumption growth of 51% to Rs. 10.5 billion which translates into a high trading density of Rs. 1,484 per square foot. MarketCity - Bangalore, saw a year on year consumption growth of 19% to Rs. 7.8 billion and in MarketCity - Pune, consumption grew at 23% to Rs. 7.6 billion year on year with 20% year on year increase in the trading density which moved up to Rs. 975 per square foot. At Phoenix MarketCity – Kurla, consumption increased by 23% year on year to Rs. 5.5 billion.

Moving on to our development portfolio, during FY15, we have recognized sales of Rs. 4.6 billion and generated EBITDA of Rs. 1.3 billion. In One Bangalore West in FY15, we have recognized revenue of Rs. 2.3 billion and the current selling price is approximately Rs. 13,000 per square foot for the first phase of One Bangalore West. Moving on to the hotels business, as you must have seen from our disclosure to the exchanges, we have entered into definitive agreements which Starwood Hotels and Resorts Pvt. Ltd. and affiliates for the management and operation of our hotel at Lower Parel, Mumbai. The management of the hotel is currently being transitioned to the Starwood Management team, subsequent to which, it will be re-branded as The St. Regis, Mumbai. The Palladium Hotel in Mumbai, reported an average occupancy of 82% for the 4th quarter FY15 and an ARR of Rs. 8,527 in the 4th quarter FY15. To conclude, may I add that while we have continued to strengthen our position in the Retail Industry, there are strong contributions from our other businesses as well.

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

Moderator: Thank you very much Sir. So participants, with this, we are going to start the Q&A interactive session. Should you wish to ask any question, you need to press '0' and '1' on your telephone key pad and wait for your name to be announced. I repeat it is '0' and '1' on your telephone key pad to ask questions. We have the first question from Mr. Abhishek from Macquarie Capital. Your line is unmuted, you may go ahead and ask your question.

Abhishek: I had one question; regarding this exceptional item, where you have taken a write down on the investment, book value of the investment in EWDPL. Could you just help us understand, what is the total book value of investment in EWDPL and how much has been written down?

Management: If you go through the note that we had given as part of the presentation, the disclosure has been made completely. We have given the total investment that we have made into the company. Rs. 57 crores is the investment into the equity shares of EWDL and there is a Rs. 100 crores investment into the EWDPL as fully convertible debentures. Apart from that, there is also some interest that has accrued on these instruments. So totally, we have Rs. 157 crores + Rs. 14 crores, so around Rs. 171 odd crores is the number that was due to us or we had invested. And against that, there was a put option which we exercised and we recovered Rs. 19 odd crores in the month of November 2013 and the balance remains due to us. We have taken a call of providing approximately Rs. 91 crores, which comes close to almost 60% of the value of the investment. We believe that the Rs. 19.3 crores which came to us was the beginning and there could be some more payout that we may receive over the next one or two years. And at this stage, 60% provisioning of the amount that we have invested, is a fair amount for impairment and accordingly the investments and other assets have been reflected.

Abhishek: Second question is on this hotel stake, so right now we are using the numbers that we have; it is a 100% subsidiary but eventually it can be 50%, so when is this conversion from the other partner going to happen?

Management: While these are fully convertible debentures, the conversion date as per the current understanding is 01 April 2016, so probably the conversion will happen somewhere in the next financial year. Once that happens, whatever is the equity stake corresponding to the current number, you are right; it is 55 odd number and you will see that kind of a conversion happening and the 45% will go to the other 2 shareholders who currently have the FCD instruments against their name.

Abhishek: Okay and sir last question; could you just help us get reminded about the total amount you are going to use to buy all the stakes over next 12 months, from the latest minority partners in the SPVs where you have announced that you are going to buy?

Management: Based on our current estimates, approximately I would say the amount is around Rs. 3 billion that we need to spend to complete all our committed transactions, so that is the number which should be getting paid out starting from June of this year. In the next month, we will start with some money and re-conclude till August of next year. We have leverage of 14 months to clear this Rs. 3 billion pay out.

Moderator: Thank you very much. We have our next question from Mr. Puneet from Goldman Sachs, your line is unmuted, and you may go ahead and ask your question.

Puneet: What is the total amount paid in this quarter for various stake purchases in Q4?

Management: **For** Q4, I would say, the number was around Rs. 1 billion.

Puneet: Okay and anything has been paid after Q4 till now?

Management: Not really because Q4 just got over and we are in first Q1 and it has just got over so between April and May, we have not paid anything. The payments will be made during this year and the following year.

Puneet: So debt of the group did not go up, so how much was funded?

Management: Well, we have significant cash flows as we have been talking in the past as well. Cash flows from our development portfolio as well as our from our retail portfolio have been quite robust. Plus at Phoenix mills level, there was an un-drawn facility which had remained, so part of that got utilized and of course the cash flow from our Palladium Construction which is our One Bangalore West and Kessaku residential project. We used some of these surplus cash or this payment.

Puneet: You mentioned that at the end of previous quarter; the total amount outstanding is Rs. 4.8 billion.

Management: I would not remember that number but I would say, the we have paid out Rs. 1 billion in March which was the only payment that we made during the entire 3 months and in June again, we have Rs. 1 billion to pay and there is no other commitment.

Puneet: Okay and then if I look at your quarter results in Q4, so your rental income has gone up by 18% on a Y-o-Y basis, but your recovery on CAM has reduced, while your total EBITDA has remained constant on a Y-o-Y basis.

Management: Are you talking of the standalone numbers?

Puneet: Standalone numbers, yes. EBITDA has remained constant, so your rental income has grown by 18% but correspondingly your recoveries have gone down.

Management: When we look at the recoveries that you are talking about in High Street Phoenix and Palladium, the recoveries in Q4 FY15 had an element of property tax. Other than that, the recovery patterns have remained the same as compared to last year. If you look at it from our EBITDA absolute number point of view, the number remains pretty much the same. Only the percentage has slightly changed because of certain other expenses being factored in, which were not part of the recovery. So some onetime expenses, which are not part of recoverables, could be the reason why you see that our EBITDA margins have dipped slightly. If you look at our overall FY15 numbers, the margins have slightly been under pressure because of property tax and other elements which are slightly larger as compared to what they were in the previous year. As we move forward, we will start factoring in higher recoveries but currently the recovery was slightly low on the property tax matter and there were certain repairs and maintenance which were also a onetime expenditure which have resulted in a slightly lower EBITDA margin as compared to what you see in the previous year.

Moderator: Thank you very much. We have the next question from Mr. Abhishek from JM financials, your line is unmuted, and you may go ahead and ask your question.

Abhishek: My first query is with respect to your Kurla Mall, clearly the trading density has still not picked up and as we understand, the market is on a very competitive intensity, as in, we are likely to see a lot of renewals happening over the next 2 years; both in Kurla Mall as well as your competitors, so how do you see or what is the group strategy to encounter that typical trends expected going forward?

Management: Your observation on the numbers are correct to an extent but if you also look at the fact that my quarter on quarter growth has been at least 12% in terms of trading density and consumption also has kept pace and grown at around 10%. We have seen a lot of activity around the area in terms of infrastructure development, we saw the Mono Rail coming up almost at a distance of a half a kilometer from our Mall, we saw the East-West corridor getting connected through Santacruz-Chembur link road, our own offices which we are developing as part of the overall mixed-use development are high quality A-Grade office buildings and we have seen a lot of quality tenants and quality people coming in, moving in as tenants or buying out this space for their own use. So we believe that over a period of maybe next one or one and a half years, this Mall will continue to have a little slow pace but will eventually start performing to the potential that we believe it has. We really feel that the Mall has a very large area of 1.2 or 1.15 million square foot of total area and occupancy has remain relatively high over the last 3 years of its operation; that itself gives us a comfort that the retailers are finding this Mall to be a destination which will give them growth over a period of time. Occupancies have remained in between 88% to 92% level, which gives us a lot of comfort about how retailers have been looking at the Mall space and as I said, once the office space comes up and people start occupying those areas as well, the entire destination will undergo a change. Today we are developing almost a million square feet of office space within this overall development which will bring in lot of footfalls, lot of quality people in terms of corporate and people who are going to be using this space. From our point of view, we are very positive about how the traffic will move forward. We are also taking a lot of pro-active steps to ensure that malls performance improves. There are a lot of F&B outlets that are getting opened because of the efforts that we are putting in. The quality of crowd that is coming to the Mall has also shown a lot of improvement and thanks to the connectivity and the infrastructure development, we are seeing the consumption and trading density also move up quarter on quarter despite the fact that this area is slightly weak compared to the locations of the other Malls that we have. So from our point of view, the center is getting its due attention it requires. We are not wrong in saying that we are not satisfied with the performance but at the same time we are sure, the potential is yet to be achieved and maybe it will take a year, year and a half before we actually realize the potentials but if you look at the brand mix that we have at the Mall, I think the who's of who of the retail community are present there. So that also, is a very good sign that people of different nature in terms of the retail community are with us and they have been really helping each other to ensure that the Mall starts performing to its potential.

Abhishek: Sir, actually where I was coming from is; that renewal schedule of almost 50% of lease area coming in the next 2, 3 years, much another 6 lakh square feet is expected from your competitors, so I just wanted to understand the short term, do you see the rentals coming down or we expect it to remain at least stable.

Management: Rentals are definitely not going to come down. If you look at my absolute numbers that we have achieved for Q4 or for the entire year, I think the rentals have remain pretty much similar in pattern, they have not gone down, there is a hardly any movement there. We offer what our competitors are not able to offer. It is a 300+ store mall, there is also a lot of other activity which is coming up, if you have visited the mall, you would have seen The Phoenix Paragon Plaza, which is next door to it, you would have seen the development of the office building which is adjacent to it, so it is becoming a destination in itself. The kind of offering that we are giving, will definitely be much superior to what the so-called competitors are likely to give. The competitor has been in existence for some time, their Mall was operational even before we launched our Malls, so we have been able to withstand the competition and perform despite the poor infrastructure and the poor catchment. Catchment that is currently there is slightly poor compared to the rest of the malls that we have. So from our point of view, we believe that the rental renewals that you are referring to in a year and a half will definitely be at prices which are much better than what you see today. While we are averaging around Rs. 88 or so or Rs. 85 per square foot, I do not feel that these numbers will come under any pressure as we go into the renewal cycle, either because of the way the competition is coming up or the way that this particular mall is shaping up.

Abhishek: Sure, secondly Sir, in terms of your growth plans; given the fact that we are almost done with our CAPEX cycle, how do you look at your growth trajectory, are we looking at Greenfield projects or are we looking to acquire certain Malls. You have had a disclosure of QIP, you might be looking to do, so just to tie-in things, how are we looking at growth going forward?

Management: I think I will answer the question in 2 or 3 parts; first one on the QIP, and that was more of an enabling resolution, if you recollect the couple of years back also we had passed a similar enabling resolution and that resolution had lapsed, so we felt that just for being on a state of readiness, so we took that enabling resolution, the rest of the things will get decided as and when we decide about it but right now it is only at an enabling stage. Having said that, our growth strategy and the way we look at ourselves and the way opportunities are coming, we have been stating in the past as well that the cash flows that are coming out of our Residential portfolio have been very encouraging, very strong, I just replied to a question from Puneet earlier, from Goldman saying that we have paid out a Rs. 1 billion in the quarter 4 and there will be similar amount in quarter 3, so from cash flow point of view, we continue to see a high visibility going forward. Our annuity income has been steadily growing across all the locations that we are present in, so this gives us a lot of comfort and confidence in terms of our growth strategy. All avenues, all options remain open to us, our brand on the retail side is well-established, and we all know that we are one of the leading players in the industry. And on the residential space also, if you recollect the performance of our Bangalore property or our Chennai property, the brand has been established very strongly in these geographies and in Pune. Our belief is that opportunities are across both these sectors; whether it is a mixed use development, similar our MarketCities or a residential development on a standalone basis or even acquisition of ready assets which could come our way. It could be any option depending on how we feel one of them plays out but clearly we would be discussing and we would be evaluating all the 3 options as we move forward because that is really something which is very natural in the progression because you rightly said, the CAPEX cycle is over, now the growth has come in or the stability has come in and cash flows have become very robust. So clearly we need to look at the growth and we are evaluating a lot of options at this stage as well.

Moderator: Thank you very much. We have our next question from Azhara from Fed Vintage, your line is unmuted, and you may go ahead and ask your question.

Azhara: Just wanted to know, what is the kind of insurance that you all carry on each of your property?

Management: While all the aspects are adequately insured, we do a complete assessment of requirements. The assets which are underlined plus the malls are basically a public place so you need to take third party liabilities and you need to ensure that the visitors who come to the mall and anything that happens to them is also adequately covered i.e. fire and life safety. All those parameters are adequately evaluated on a regular basis. And of course, the asset gets covered as well in the replacement value of the asset. Apart from that, all possible risks whether the insurance against earthquake or terrorism; everything is covered. And there is a robust mechanism. We of course seek help of professionals to evaluate and give us the best coverage that is required and not only for the malls but also for our hotels. Everything on the insurance front has been taken care of with the highest safety and security in mind.

Azhara: **W**hat is the replacement cost at which we are carrying the insurance for fixed assets?

Management: We will not disclose those numbers, those are more for internal consumption, for internal evaluation, so those are not numbers which we share but as I said the assets are covered.

Azhara: Just wanted to get a sense in terms of how the valuation assessment is done internally or do you also engage some external experts?

Management: We do not carry out valuation excise for the purpose of carrying valuation excise but we are guided by the advice that we receive from our insurance advisors. They have their own criteria wherein they judge the replacement values; those are very different from the valuation that one would assign to a mall which is an operating asset, which is more of a net income generating assets. So there are 2 different ways of making a rate while the insurance company looks at more as the cost, while if you go for a valuation from a business angle, the valuations could be significantly different.

Azhara: Right, so the insured value that you have is your mix of all?

Management: I would not be able to disclose the numbers but I can only say that our insurance policy gives us all the comfort that we require in terms of feeling safe and all our assets fortunately have a very good track record in terms of our ability to maintain it. The assets have not had any sort of loss of property or damages to the property. So that is one thing but otherwise we have adequate insurance coverage across all our assets and that is being reviewed on a regular basis as and when the insurance policies fall due, we do a complete analysis and are guided by third party professionals.

Moderator: Thank you very much. We have our next question from **De-Graaf**, he is an individual investor, your line is unmuted, and you may go ahead and ask your question.

De-Graaf: I have got a couple of question on your residential developments; can you give an update of the timeline on One Bangalore West, the construction timeline?

Management: If you look at our presentation, there are One Bangalore West is divided into Phase-1 and Phase-2; while Phase-1 was launched in the Q3 of 2012 and it is comprising of 1.2 million square feet of development area, we have already sold a million square feet out of these, and we hope to start handing over the property to the end users by Q4 of FY15, so maybe, March, April of 2016, we should be handing it over. We have another, I would say 10-11 months for it to be handed over as far as Phase-1 is concerned. Phase-2 was launched in the Q4 of 2014 and this probably will get completed within 3 years' time and we should be looking at a life cycle of around 36 months. We have also started with Kessaku, which is our high-end luxury apartment building at the same location which was launched only in the last couple of months. This project also would require between 36 and 40 months for completion and we should be ready for delivery after that. All the necessary construction progress has begun there, so gives us a lot of clarity and comfort about how that project is also shaping up.

De-Graaf: Okay, on Kessaku; can you disclose the sales numbers and the bracket at which it is priced?

Management: Yes, all those details are given in our presentation, if you look at it, the Phase-1, I have sold a million square feet, out of the 1.2 million, and we have averaged out between Phase-1 and Phase-2, a price of around Rs. 8,311 per square feet while currently we are selling the balance area for the Phase-1 at Rs. 13,000 a square feet and the Phase-2 at around Rs. 11,500 a square feet.

De-Graaf: Thank you, that is clear, I found that but I did not find any numbers on the Kessaku project.

Management: While Kessaku as I said we have just launched it a couple of months back. We will be disclosing the numbers in the June quarter results because we have started sales only in April, so it would not have been right on our part to disclose those numbers but we have had a very robust beginning to our sales there. If I were to give you a sense, probably we would have sold close to around 25% of the area so far. The total development is close to a million square feet and we would have sold closer to 250,000 square feet in these 2 months but we will give you more specific details once we come up with our first quarter results in the next 45 days' time.

De-Graaf: Last question is on the Pune, Fountainhead's project; can you give a construction update on that project till now?

Management: The construction is progressing and we now have all the approvals that were required for construction. So you will find that the speed of the progress in this project will increase dramatically. While in the last 2 quarters the progress had been slightly low as you would have also observed from the photographs and rest of the update that we keep giving on a timely basis, I am very happy to note that all approvals now are in place and you should see the progress becoming very visible. In a couple of months you will see the difference. Currently we have sold around 10% of the area and we hope to now really begin our sales momentum because all the project approvals are in order now.

Moderator: Thank you very much. So at this time, there are no more questions from the investors, I would like to hand it over back to the management for any final or closing comments, over to you sir.

Management: I would like to take this opportunity and thank you all once again for participating in the conference call. Any further queries that you may have, may be directed to my colleagues, Pawan and Rohini and we will be happy to answer any query that you may still have offline. We will be happy to respond to your emails. Thank you once again and good evening.

Moderator: I would like to thank the management and the investors for joining us today. Hope you all have spent useful time. That does conclude the annual results conference call for Phoenix Mills Limited. Thank you.