

Phoenix Mills

BSE SENSEX	S&P CNX
37,393	11,257
Bloomberg	PHNX IN
Equity Shares (m)	153
M.Cap.(INRb)/(USDb)	94.9 / 1.4
52-Week Range (INR)	725 / 492
1, 6, 12 Rel. Per (%)	3/-4/-15
12M Avg Val (INR M)	74
Free float (%)	37.2

Financials & Valuations (INR b)

Y/E March	FY19	FY20E	FY21E
Sales	19.8	21.7	23.0
EBITDA	9.9	11.0	11.8
NP	3.8	3.9	4.4
EPS (Rs)	25.0	25.6	28.7
EPS Growth (%)	57.8	2.5	12.3
BV/Share (Rs)	227.0	249.0	273.6
P/E (x)	24.7	24.2	21.5
P/BV (x)	2.7	2.5	2.3
EV/EBITDA (x)	13.3	11.8	10.7
EV/Sales (x)	6.7	6.0	5.5
RoE (%)	12.1	10.8	11.0
RoCE (%)	10.3	9.4	9.8

Estimate change



TP change



Rating change


CMP: INR619 TP: INR785 (+27%)
Buy

Transient moderation in consumption

- < **Kessaku revenue recognition drives outperformance:** Revenue grew 66% YoY to INR7,232m (our estimate: INR4,839m) in 4QFY19, driven by revenue recognition of INR3,170m in Kessaku, Bengaluru. EBITDA increased 74% YoY to INR3,771m (our estimate: INR2,419m), with the margin expanding 260bp YoY to 52% (our estimate: 50%). Adj. PAT grew over 100% YoY to INR1,879m, higher than our estimate of INR655m, led by profits from kessaku recognition. For FY19, revenue grew 22% to INR19.8b, EBITDA increased 28% to INR9.9b and PAT was up 97% to INR4.7b.
- < **Retail – transient moderation in consumption:** Consumption increased 6% YoY to INR16,265m in the quarter. Rental income rose 9% YoY to INR2,499m, while EBITDA **increased** strongly by 24% YoY to INR2,375m. Consumption growth moderated at HSP (-1% YoY) on account of (a) infrastructure upgrades (metro construction) in the neighborhood causing visitor inconvenience, (b) two key tenants (PVR, lifestyle) undertaking refurbishment work and (c) tenant churn resulting in sluggish growth, temporarily hurting footfall.
- < **Concall highlights:** (1) Home accessories, jewelry and watches, electronics, cosmetics and F&B grew faster than hypermarkets, books, gifts and toys. (2) Additional 1.6msf can be built at HSP (0.5msf mall, 1.1msf office space); however, this is in the planning stage and finalization will take ~12 months.
- < **Valuation view:** We believe that PHNX offers a unique way to play India's retail growth story due to its (a) strong track record of execution and (b) scalability, as reflected in the line-up of five new under-construction malls and (c) robust cash generation. We value **PHNX's** retail assets based on the DCF-based NAV approach, assuming a cap rate of 8.5% (HSP - 8%) and a discount rate of 13.5%. We maintain **Buy** with an SOTP-based TP of INR785 (upside 27%).

Consolidated - Quarterly Earning Model

Y/E March	FY18				FY19				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY18	FY19	FY19E	Var (%)
Gross Sales	3,959	3,706	4,166	4,366	4,132	4,047	4,404	7,232	16,198	19,816	4,839	49%
YoY Change (%)	-10.5	-24.5	-4.6	-3.9	4.4	9.2	5.7	65.6	-11.2	22.3	10.8	
Total Expenditure	2,199	1,922	2,099	2,205	2,178	2,066	2,180	3,461	8,424	9,885	2,419	43%
EBITDA	1,760	1,785	2,067	2,161	1,953	1,981	2,225	3,771	7,774	9,931	2,419	56%
Margins (%)	44.5	48.2	49.6	49.5	47.3	49.0	50.5	52.1	48.0	50.1	50.0	
Depreciation	475	510	485	513	499	506	523	514	1,983	2,042	530	
Interest	901	857	883	836	846	917	917	826	3,476	3,506	963	-14%
Other Income	156	149	106	145	170	183	170	329	556	851	180	
PBT before EO expense	541	567	806	957	778	740	955	2,761	2,871	5,234	1,107	
Extra-Ord expense	0	0	0	0	0	0	0	-481	0	-481	0	
PBT	541	567	806	957	778	740	955	3,242	2,871	5,715	1,107	
Tax	267	267	218	7	235	179	175	510	758	1,099	376	
Rate (%)	49.3	47.1	27.0	0.7	30.2	24.1	18.3	15.7	26.4	19.2	34.0	
MI & P/L of Asso. Cos.	-151	-118	-64	25	-54	-58	72	448	-308	407	76	
Reported PAT	426	418	652	926	597	620	708	2,284	2,422	4,210	655	249%
Adj PAT	426	418	652	926	597	620	708	1,879	2,422	3,821	655	187%
YoY Change (%)	-1.1	-23.1	46.5	255.5	40.3	48.5	8.5	103.0	44.2	57.8	-29.3	
Margins (%)	10.8	11.3	15.7	21.2	14.5	15.3	16.1	26.0	15.0	19.3	13.5	

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Segmental highlights**(a) Retail segment:**

- < PMC Mumbai and PMC Pune were the top-performing retail assets, demonstrating strong consumption and rental income growth.
- < FY19: Consumption was up 9% YoY to INR68,866m. Rental income increased 14% YoY to INR9,913m. EBITDA rose 22% YoY to INR9,518m.

(b) Hospitality segment:

- < Improvement in room occupancy led to a robust operational performance at The St. Regis, Mumbai – 4Q ARR was INR12,514 (+4% YoY), while average occupancy was strong at 87% (+4% YoY). 4QFY19 total income was up 12% YoY to INR875m and EBITDA increased 16% YoY to INR391m.

(b) Commercial segment:

- < Commercial portfolio generated revenue of INR881m in FY19 (+44% YoY).

(d) Update on under-construction assets

- < Construction commencement is on schedule in the greenfield retail development at Wakad Pune, Hebbal Bangalore and Ahmedabad.
- < Construction on balance area at PMC Indore is expected to commence from June 2019.



Earnings call Highlights

Key takeaways

- < Extraordinary gain refers to the provision for premium on redemption of non-convertible debentures of INR481m made in the earlier years, which has been written back.
- < Other comprehensive income for the quarter includes realized gain of INR621.8m on the sale of investments of 8,15,551 equity shares of Graphite India Limited.
- < PHNX currently has 5.9msf of operational retail portfolio and 4.90msf of under-development retail portfolio. The company is evaluating options to add another 3msf of retail space in tier 1 cities in India.
- < Average cost of borrowing is up marginally to 9.38%. However, it expect interest rates to come down in the coming quarters. Modest debt maturities of INR3-5b per year for the next three years. Cash flows from residential sales are expected to fund future retail acquisitions.
- < Fountainhead Tower 1 leasable area is 0.17 msf, of which 0.14 msf (80%) has been leased and 0.07 msf is currently operational as of March 2019. Tower 2 leasable area is 0.22 msf and construction commenced in 4QFY19. Tower 3 leasable area is 0.35 msf and construction is expected to commence in 1QFY20.
- < Palladium Chennai has completed its first year of operations. EBITDA margin (currently 41%) will move closer to 100% once the mall stabilizes and occupancy increases above 90%.
- < The residential segment reported 4QFY19 revenue recognition of INR3,852m. Sales in FY19 included OBW – 31 units (77,491sf) at INR1,150m in sales value at sales price of INR14,150psf; Kessaku reported sales of 8 units (62,067 sft) at INR927m in sales value and achieved sales price of INR 14,046psf.

Operational performance of key assets

Exhibit 1: HSP & Palladium mall, Mumbai mall performance

Particulars	4QFY18	3QFY19	4QFY19	YoY Chg. %	QoQ Chg. %
Consumption (INR m)	4,057	4,574	4,013	-1%	-12%
Trading Density (INR/sf pm)	2,879	3,381	2,827	-2%	-16%
Trading Occupancy (%)	94%	90%	94%		
Rental Rate (INR/sfpm)	369	369	392	6%	6%
Rentals (INR m)	803	776	868	8%	12%
EBITDA (INR m)	644	699	873	36%	25%
EBITDA Margin (%)	80%	90%	101%		

Source: MOFSL, Company

Exhibit 2: PMC, Chennai mall performance

Particulars	4QFY18	3QFY19	4QFY19	YoY Chg. %	QoQ Chg. %
Consumption (INRm)	2,478	2,898	2,446	-1%	-16%
Trading Density (INR/sf pm)	1,369	1,566	1,324	-3%	-15%
Trading Occupancy (%)	95%	97%	98%		
Rental Rate (INR/sfpm)	130	139	137	5%	-1%
Rentals (INRm)	357	388	384	8%	-1%
EBITDA (INRm)	345	427	383	11%	-10%
EBITDA Margin (%)	97%	110%	100%		

Source: MOFSL, Company

Exhibit 3: PMC, Bangalore mall performance

Particulars	4QFY18	3QFY19	4QFY19	YoY Chg. %	QoQ Chg. %
Consumption (INRm)	2,859	3,514	3,048	7%	-13%
Trading Density (INR/sf pm)	1,541	1,848	1,589	3%	-14%
Trading Occupancy (%)	96%	97%	98%		
Rental Rate (INR/sfpm)	111	124	118	6%	-5%
Rentals (INRm)	322	361	347	8%	-4%
EBITDA (INRm)	299	372	338	13%	-9%
EBITDA Margin (%)	93%	103%	97%		

Source: MOFSL, Company

Exhibit 4: PMC, Pune mall performance

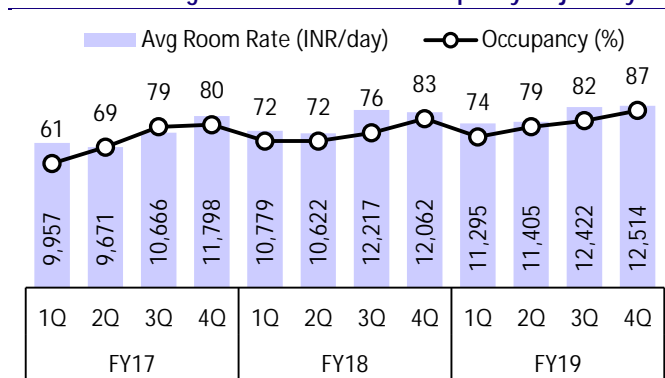
Particulars	4QFY18	3QFY19	4QFY19	YoY Chg. %	QoQ Chg. %
Consumption (INRm)	2,616	3,405	2,820	8%	-17%
Trading Density (INR/sf pm)	1,148	1,501	1,222	6%	-19%
Trading Occupancy (%)	95%	94%	98%		
Rental Rate (INR/sfpm)	106	123	116	9%	-6%
Rentals (INRm)	360	416	406	13%	-2%
EBITDA (INRm)	326	400	388	19%	-3%
EBITDA Margin (%)	91%	96%	96%		

Source: MOFSL, Company

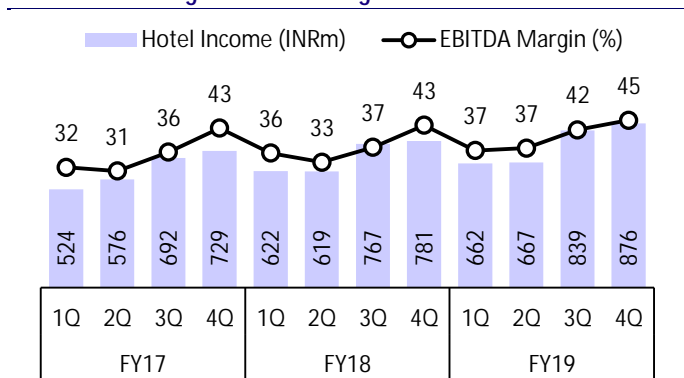
Exhibit 5: PMC, Mumbai mall performance

Particulars	4QFY18	3QFY19	4QFY19	YoY Chg. %	QoQ Chg. %
Consumption (INRm)	1,970	2,654	2,356	20%	-11%
Trading Density (INR/sf pm)	1,001	1,292	1,059	6%	-18%
Trading Occupancy (%)	93%	96%	98%		
Rental Rate (INR/sfpm)	93	99	97	4%	-2%
Rentals (INRm)	281	311	310	10%	0%
EBITDA (INRm)	225	310	300	33%	-3%
EBITDA Margin (%)	80%	100%	97%		

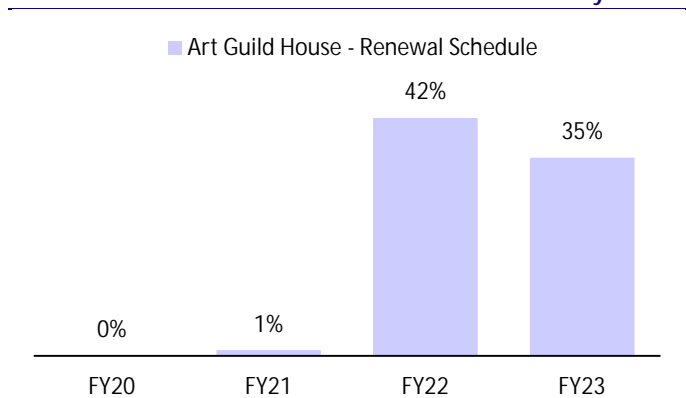
Source: MOFSL, Company

Exhibit 6: St. Regis Hotel's ARR and occupancy trajectory

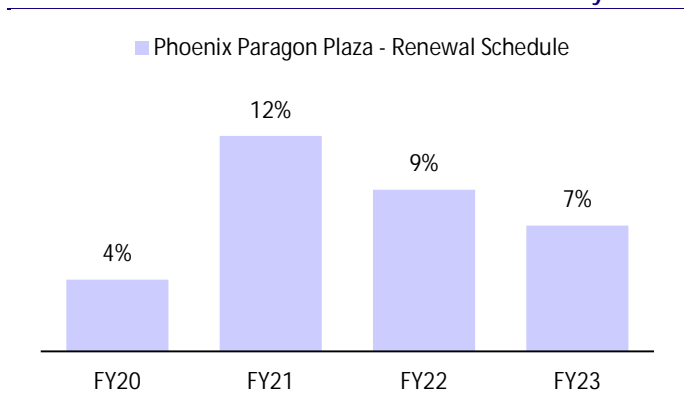
Source: Company, MOFSL

Exhibit 7: St. Regis EBITDA margin trend

Source: Company, MOFSL

Exhibit 8: 78% leasable area for renewal over next 4 years

Source: MOFSL, Company

Exhibit 9: 32% leasable area for renewal over next 4 years

Source: MOFSL, Company

Story in charts

Exhibit 10: Expect revenue CAGR of 8% over FY19-21

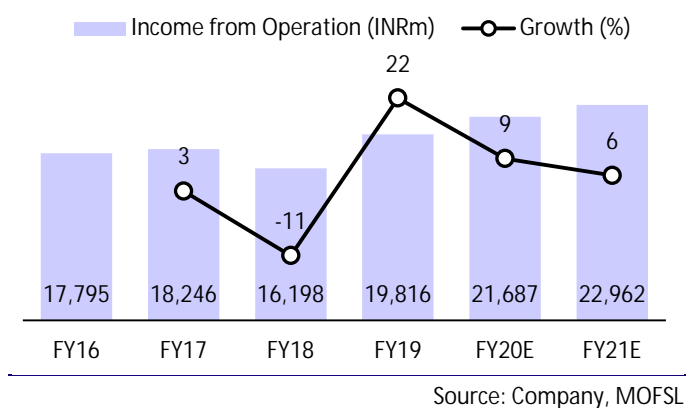


Exhibit 11: EBITDA margins to improve on operating leverage

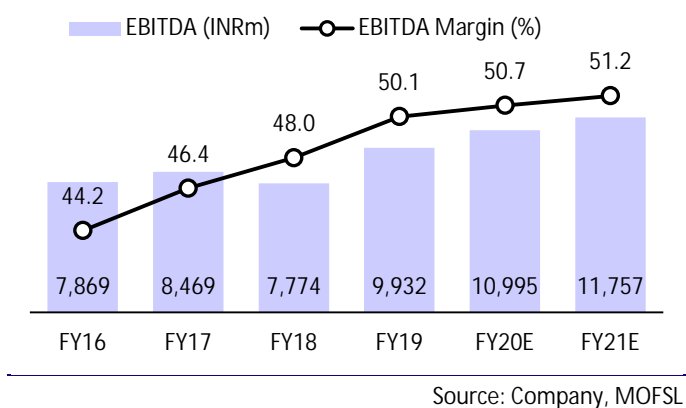


Exhibit 12: Expect adj. PAT CAGR of 7% over FY19-21

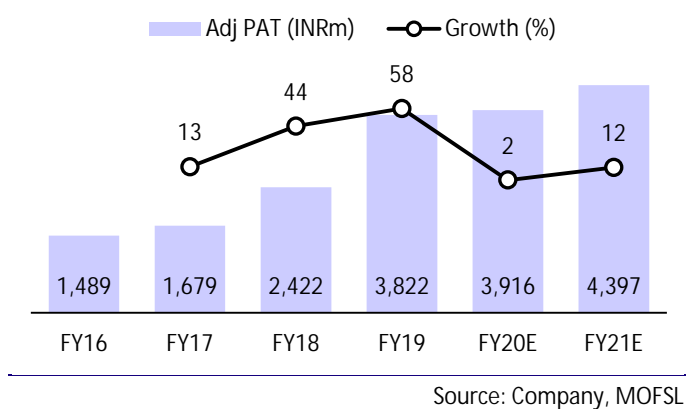


Exhibit 13: PHNX to generate CFO of INR24b over FY19-21

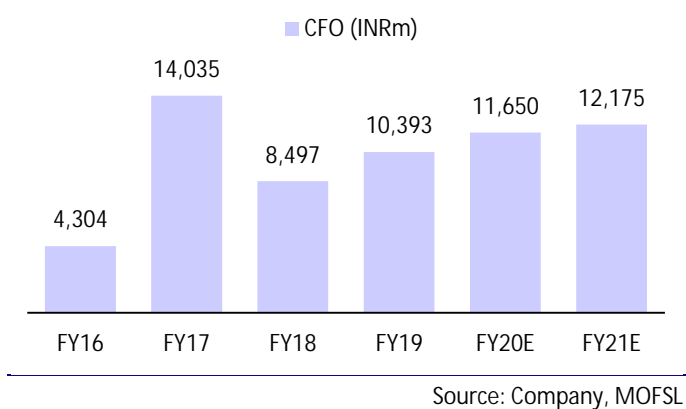


Exhibit 14: Debt to equity declining trend

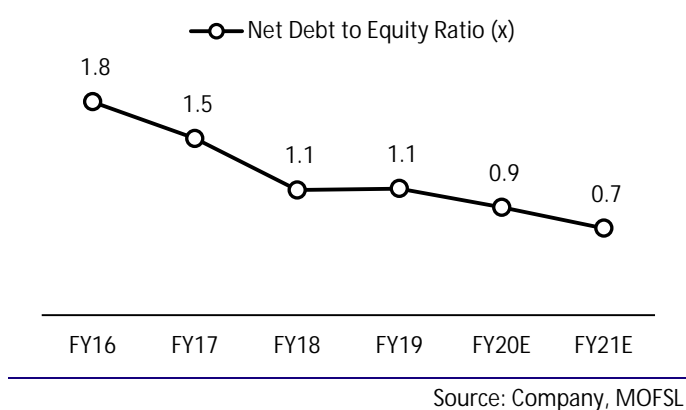
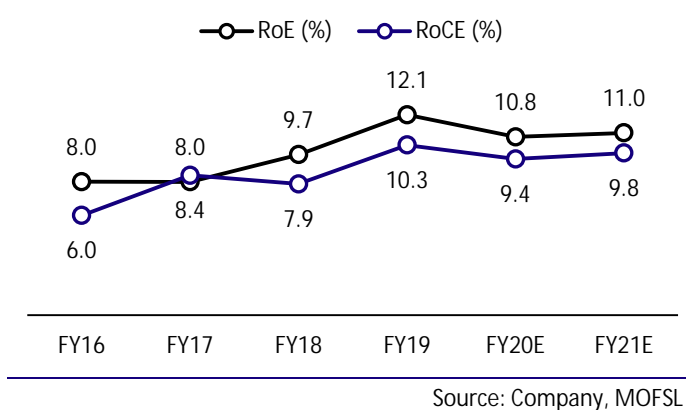


Exhibit 15: RoE to remain sub-10% due to CWIP



Financials and valuations

Income Statement							(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	14,485	16,533	17,795	18,246	16,198	19,816	21,687	22,962
Change (%)	208.3	14.1	7.6	2.5	-11.2	22.3	9.4	5.9
Cost of Materials/Construction	3,500	2,813	2,848	2,466	1,319	2,189	2,386	2,526
Employees Cost	731	915	1,244	1,403	1,473	1,615	1,713	1,768
Power & Fuel Cost	1,426	1,790	1,983	2,027	1,775	1,641	1,778	1,860
Other Expenses	2,045	3,395	3,852	3,880	3,857	4,440	4,815	5,052
Total Expenditure	7,701	8,914	9,926	9,777	8,424	9,884	10,692	11,205
% of Sales	53.2	53.9	55.8	53.6	52.0	49.9	49.3	48.8
EBITDA	6,784	7,620	7,869	8,469	7,774	9,932	10,995	11,757
Margin (%)	46.8	46.1	44.2	46.4	48.0	50.1	50.7	51.2
Depreciation	1,055	1,681	1,773	1,953	1,983	2,042	2,520	2,606
EBIT	5,729	5,939	6,096	6,516	5,791	7,889	8,476	9,150
Int. and Finance Charges	3,451	3,956	4,425	4,230	3,476	3,506	3,509	3,366
Other Income	391	312	302	472	556	851	700	735
PBT bef. EO Exp.	2,669	2,295	1,974	2,758	2,871	5,235	5,667	6,519
EO Items	84	-938	-387	0	0	481	0	0
PBT after EO Exp.	2,753	1,357	1,587	2,758	2,871	5,716	5,667	6,519
Total Tax	909	493	767	858	758	1,099	1,303	1,630
Tax Rate (%)	33.0	36.3	48.3	31.1	26.4	19.2	23.0	25.0
Minority Interest	560	510	-470	221	-308	407	447	492
Reported PAT	1,285	354	1,289	1,679	2,422	4,210	3,916	4,397
Adjusted PAT	1,228	952	1,489	1,679	2,422	3,822	3,916	4,397
Change (%)	45.2	-22.5	56.5	12.8	44.2	57.8	2.5	12.3
Margin (%)	8.5	5.8	8.4	9.2	15.0	19.3	18.1	19.2

Consolidated - Balance Sheet							(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	290	290	306	306	306	306	306	306
Total Reserves	16,948	16,447	19,967	21,194	28,211	34,435	37,800	41,564
Net Worth	17,237	16,737	20,273	21,501	28,517	34,741	38,106	41,870
Minority Interest	7,216	6,212	4,789	2,797	4,661	12,233	12,233	12,233
Total Loans	34,062	34,023	38,895	33,542	34,509	39,810	37,310	34,310
Deferred Tax Liabilities	-858	-1,047	-1,096	-1,252	-846	-1,386	-1,386	-1,386
Capital Employed	57,657	55,925	62,861	56,588	66,841	85,398	86,263	87,027
Gross Block	45,060	46,363	50,371	50,139	63,347	73,938	74,288	74,638
Less: Accum. Deprn.	3,363	5,061	6,824	8,400	10,383	12,425	14,945	17,551
Net Fixed Assets	41,697	41,302	43,547	41,739	52,965	61,513	59,344	57,087
Goodwill on Consolidation	0	2	1,933	3,273	3,711	3,711	3,711	3,711
Capital WIP	2,351	2,138	1,949	3,285	5,025	8,963	13,963	17,963
Total Investments	3,544	1,997	1,611	4,096	4,978	7,450	7,450	7,450
Curr. Assets, Loans&Adv.	19,152	19,928	24,104	16,438	17,447	18,132	16,865	16,633
Inventory	11,417	11,783	13,240	9,455	6,615	8,986	6,663	5,002
Account Receivables	1,968	2,192	2,786	1,470	1,292	1,955	1,783	1,761
Cash and Bank Balance	851	920	1,630	812	3,761	1,920	1,913	2,981
Loans and Advances	4,916	5,032	6,448	4,700	5,780	5,271	6,506	6,889
Curr. Liability & Prov.	9,087	9,441	10,282	12,242	17,284	14,371	15,069	15,817
Account Payables	2,018	1,462	1,616	1,116	1,048	1,479	1,406	1,351
Other Current Liabilities	6,546	7,217	8,115	10,338	15,136	12,263	13,012	13,777
Provisions	524	762	551	788	1,100	630	651	689
Net Current Assets	10,065	10,487	13,822	4,196	163	3,761	1,796	817
Appl. of Funds	57,657	55,925	62,861	56,588	66,841	85,398	86,263	87,027

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)								
EPS	8.0	6.2	9.7	11.0	15.8	25.0	25.6	28.7
Cash EPS	14.9	17.2	21.3	23.7	28.8	38.3	42.0	45.8
BV/Share	112.6	109.4	132.5	140.5	186.3	227.0	249.0	273.6
DPS	2.1	2.1	2.2	0.4	2.6	2.6	3.0	3.4
Payout (%)	29.0	108.4	35.6	4.9	19.8	11.4	14.1	14.4
Valuation (x)								
P/E		99.4	63.5	56.3	39.1	24.7	24.2	21.5
Cash P/E		35.9	29.0	26.0	21.5	16.1	14.7	13.5
P/BV		5.7	4.7	4.4	3.3	2.7	2.5	2.3
EV/Sales		7.7	7.4	7.0	7.7	6.7	6.0	5.5
EV/EBITDA		16.8	16.8	15.0	16.1	13.3	11.8	10.7
Dividend Yield (%)	0.3	0.3	0.4	0.1	0.4	0.4	0.5	0.6
Return Ratios (%)								
RoE	7.0	5.6	8.0	8.0	9.7	12.1	10.8	11.0
RoCE	9.0	7.8	6.0	8.4	7.9	10.3	9.4	9.8
RoIC	8.9	7.4	5.8	8.5	8.4	10.6	10.0	11.3
Working Capital Ratios								
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.3
Inventory (Days)	288	260	272	189	149	166	112	80
Debtor (Days)	50	48	57	29	29	36	30	28
Creditor (Days)	51	32	33	22	24	27	24	21
Leverage Ratio (x)								
Interest Cover Ratio	1.7	1.5	1.4	1.5	1.7	2.3	2.4	2.7
Net Debt/Equity	1.9	2.0	1.8	1.5	1.1	1.1	0.9	0.7

Cash flow statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	2,754	1,357	1,587	2,758	2,871	5,235	5,667	6,519
Depreciation	1,055	1,681	1,773	1,953	1,983	2,042	2,520	2,606
Interest & Finance Charges	3,241	3,777	4,237	3,909	2,920	2,654	2,809	2,631
Direct Taxes Paid	-1,111	-891	-1,352	-438	-758	-1,099	-1,303	-1,630
(Inc)/Dec in WC	-2,187	-1,419	-1,940	5,853	1,481	1,561	1,958	2,048
CF from Operations	3,751	4,505	4,304	14,035	8,497	10,393	11,650	12,175
Others	17	1,131	668	102	0	0	0	0
CF from Operating incl EO	3,768	5,636	4,972	14,138	8,497	10,393	11,650	12,175
(Inc)/Dec in FA	-14,820	-1,074	-3,856	-1,847	-15,387	-14,529	-5,350	-4,350
Free Cash Flow	-11,052	4,562	1,116	12,291	-6,889	-4,135	6,300	7,825
(Pur)/Sale of Investments	2,086	-1,326	96	-2,429	-883	-2,472	0	0
Others	279	1,379	205	349	13,399	851	700	735
CF from Investments	-12,456	-1,021	-3,555	-3,927	-2,870	-16,149	-4,650	-3,615
Issue of Shares	0	30	2,760	22	0	0	0	0
Inc/(Dec) in Debt	12,720	-188	1,729	-6,647	967	5,301	-2,500	-3,000
Interest Paid	-3,493	-4,017	-4,469	-4,321	-3,476	-3,506	-3,509	-3,366
Dividend Paid	-371	-372	-727	-83	-479	-479	-551	-633
Others	0	0	0	0	308	2,598	-447	-492
CF from Fin. Activity	8,855	-4,546	-707	-11,029	-2,679	3,915	-7,007	-7,491
Inc/Dec of Cash	168	69	710	-818	2,948	-1,841	-6	1,068
Opening Balance	684	851	920	1,630	812	3,760	1,920	1,913
Closing Balance	851	920	1,630	812	3,760	1,920	1,913	2,981

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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