

Phoenix Mills

Estimate changes

TP change

Rating change



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	PHNX IN
Bloomberg Equity Shares (m)	159
M.Cap.(INRb)/(USD\$b)	89.7 / 1.2
52-Week Range (INR)	980 / 466
1, 6, 12 Rel. Per (%)	2/-14/3
12M Avg Val (INR M)	117

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Net Sales	19.4	16.2	21.5
EBITDA	9.7	8.0	10.9
EBITDAM %	49.8	49.5	50.8
NP (INRb)	3.3	1.8	3.8
EPS (INR)	21.5	11.8	24.9
EPS Gr. (%)	-14	-45	111
BV/Sh. (INR)	242	249	269
Ratios			
Net D:E	1.1	1.0	0.9
RoE (%)	9.2	4.8	9.6
RoCE (%)	7.9	6.2	8.5
Valuations			
P/E (x)	27.2	49.5	23.5
P/BV (x)	2.4	2.3	2.2
EV/EBITDA (x)	13.4	15.9	11.8
EV/Sales (x)	6.7	7.9	6.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	59.1	59.1	62.8
DII	10.9	9.2	5.7
FII	25.7	27.5	26.3
Others	4.3	4.2	5.2

FII Includes depository receipts

CMP: INR584
TP: INR792(+36%)
Buy

Earnings disappoint; Near-term outlook challenging

- The near-term uncertainty in PHNX's business, especially retail malls (one of the worst hit businesses due to COVID-19), remains a challenge. However, in the medium-to-long term, PHNX still remains one of the best proxy plays on India's consumption story.
- Reiterate **Buy** on account of favorable risk-reward.

COVID-19 led disruption spells short-term uncertainty

- 4QFY20 performance:** Revenue declined 45% YoY to INR3,992m (v/s est. INR4,971m) in 4QFY20. EBITDA margin declined 100bp YoY to 51.2% (in line with est. 51.1%). EBITDA stood at INR2,043m (v/s est. INR2,538m), down 46% YoY. Adj. PAT declined 75% YoY to INR467m (v/s est. INR644m).
- Segmental Performance:** Retail revenue declined 7% YoY to INR2,705m, largely impacted by COVID-19 led countrywide lockdowns in the second half of Mar'20. Commercial revenue was up 19% YoY to INR290m while Hospitality revenue declined 14% YoY to INR867m, impacted by lower occupancy at St. Regis (-1,800bp YoY to 69%) and Courtyard (-2,300bp YoY to 60%).
- Unlock 1.0 and resumption of mall business:** According to the Indian government's latest directive to restart the economy, malls were allowed to open from 8th June in few states. PMC – Bangalore and PHNX's malls in UP (Lucknow and Bareilly) have started operations. ~80% of the stores have opened up, barring few businesses like family entertainment and multiplexes (~20-25% of leasable space).

Highlights from management commentary

- Three of the eight operational malls in Bengaluru, Bareilly and Lucknow have started operations with ~80% of the permissible operational area active across assets.
- As a relief to retail tenants, PHNX has offered 3 months moratorium on renegotiated rentals – ~50% waiver in minimum guarantee (MG) portion of the rental income – for the lockdown period.

Valuation and view

- PHNX's 4QFY20 results highlight near-term headwinds in two of its key business segments viz. Retail and Hospitality. However, the company's existing liquidity position and plan to raise additional capital (up to INR12b) as a conservative measure to withstand the challenging business environment makes it a preferred play in the real estate space. Nevertheless, we cut our earnings estimate for FY21/FY22E by 31%/12% given the extended lockdown and uncertainty surrounding the commencement of operations at its key retail assets in Maharashtra (HSP Mumbai, PMC Kurla and PMC Pune, which contributes ~60% of the rental income). We value PHNX's retail assets using DCF-based NAV approach, assuming cap rate of 9.5% and discount rate of 13.5%. Maintain **Buy** with an SOTP-based TP of INR792/share.

Alpesh Thacker – Research Analyst (Alpesh.Thacker@MotilalOswal.com); +91 22 5036 2561

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Consolidated - Quarterly Earning Model

(INR Million)

Y/E March	FY19				FY20E				FY19	FY20	FY20E	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Gross Sales	4,132	4,047	4,404	7,232	6,150	4,151	5,118	3,992	19,816	19,411	4,971	-20%
YoY Change (%)	4.4	9.2	5.7	65.6	48.9	2.6	16.2	-44.8	22.3	-2.0	-31.3	
Total Expenditure	2,178	2,065	2,180	3,461	3,223	2,043	2,525	1,949	9,884	9,740	2,433	
EBITDA	1,953	1,982	2,225	3,771	2,927	2,108	2,593	2,043	9,931	9,671	2,538	-19%
Margins (%)	47.3	49.0	50.5	52.1	47.6	50.8	50.7	51.2	50.1	49.8	51.1	
Depreciation	499	506	523	514	507	509	514	545	2,042	2,076	503	
Interest	846	917	917	826	871	878	889	840	3,506	3,478	950	
Other Income	170	183	170	329	154	195	133	104	851	585	179	
PBT before EO expense	778	741	955	2,761	1,703	915	1,323	761	5,235	4,702	1,264	-40%
Extra-Ord expense	0	0	0	-481	0	-78	0	0	-481	-78	0	
PBT	778	741	955	3,242	1,703	993	1,323	761	5,716	4,780	1,264	
Tax	235	179	175	510	234	350	358	279	1,099	1,221	389	
Rate (%)	30.2	24.1	18.3	15.7	13.8	35.3	27.0	36.6	19.2	25.4	30.8	
Reported PAT	597	620	708	2,284	1,304	658	919	467	4,210	3,347	644	
Adj PAT	597	620	708	1,879	1,304	608	919	467	3,821	3,297	644	-27%
YoY Change (%)	40.3	48.6	8.5	103.0	118.3	-2.1	29.8	-75.1	57.8	-13.7	-65.7	
Margins (%)	14.5	15.3	16.1	26.0	21.2	14.6	17.9	11.7	19.3	17.0	13.0	

E: MOFSL Estimates

Key Performance Indicators

(INR Million)

Y/E March	FY19				FY20E				FY19	FY20E	FY20E	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Retail	2,905	2,839	2,899	2,908	3,046	3,024	3,218	2,705	11,551	11,993	3,055	-11%
Growth %	12.1	11.0	6.6	7.8	4.9	6.5	11.0	-7.0	9.3	3.8		
Residential	281	243	199	3,072	2,071	112	481	130	3,795	2,794	574	-77%
Growth %	-41.1	2.1	-36.0	480.7	637.0	-53.9	141.7	-95.8	144.1	(26.4)		
Commercial	149	161	327	244	250	264	334	290	881	1,138	345	-16%
Growth %	-0.7	4.9	89.0	34.8	67.8	64.5	2.1	18.9	34.0	29.2		
Hospitality	797	805	979	1,008	783	751	1,085	867	3,589	3,486	834	4%
Growth %	16.0	17.4	11.1	5.2	-1.8	-6.7	10.8	-14.0	11.8	(2.9)		



Management commentary highlights

- **Plans to raise capital:** The company is fully covered in terms of planned capex and operational expenses for its assets that are active. However, in order to address the ongoing uncertain times, PHNX has taken board approval to raise capital up to INR12b (mostly equity or combination of debt and equity), which could be used to combat liquidity stress, paring down of debt or to take up growth opportunities.
- **Consumption pattern in malls:** Consumption at operational malls have reached ~40% levels with strong demand for few categories like electronics and home accessories. Fashion and apparels are seeing relatively lower demand.
- **Hospitality business:** Courtyard by Marriot is expected to remain closed till Jul'20 due to lack of demand. St. Regis is operating with limited occupancy (~17% occupancy for Apr-Jun'20).
- **Commercial business one of the least impacted:** ~80% rentals for the lockdown period (Apr-Jun) have been collected so far. Traction for leasing appears strong for the upcoming towers in Fountain Head (T2 and T3). The company is on track to increase its commercial portfolio from 1.3msf to 6.3msf by FY24E.

- **On residential business:** As informed earlier, the company has restructured its luxury offering at Kesakku Bengaluru to offer its customers 3-4 BHK apartments. This is expected to generate better velocity for the project.
- **Under-construction projects:** The construction work at Phoenix Palassio (Lucknow) has been completed and the mall is expected to open in Jul'20. PHNX has resumed construction for other projects at Indore, Bengaluru, Pune and Ahmedabad.
- **Capex plans:** Capex outflow for FY21 is expected at ~INR2.9b (Retail at ~INR1.4b, Commercial at INR0.5b and Residential at ~INR1b).
- **Debt levels:** Total debt remained largely stable at INR46b with average cost of borrowing down to 8.9% in 4QFY20 (v/s 9.3% in 3QFY20).

Valuation and view

Medium-to-long term outlook remains positive

- PHNX's 4QFY20 results highlight near-term headwinds in two of its key business segments viz. Retail and Hospitality. However, the company's existing liquidity position and plan to raise additional capital (up to INR12b) as a conservative measure to withstand the challenging business environment makes it a preferred play in the real estate space.
- Also, we believe that PHNX provides a unique way to play India's retail growth story due to its (a) strong track record of execution and operations, (b) scalability, (c) focused strategy to tap high potential markets, and (d) robust cash generation.
- PHNX is not planning to aggressively pursue any growth plans until the uncertainty surrounding the COVID-19 led crisis disappears. At the same time, management has guided to remain on track to complete their under-construction leasing assets (four retail malls and two commercial assets).
- Nevertheless, we cut our earnings estimate for FY21/FY22E by 31%/12% given the extended lockdown and uncertainty surrounding the commencement of operations at its key retail assets in Maharashtra (HSP Mumbai, PMC Kurla and PMC Pune, which contributes ~60% of the rental income). We value PHNX's retail assets using DCF-based NAV approach, assuming cap rate of 9.5% and discount rate of 13.5%. Maintain **Buy** with an SOTP-based TP of INR792/share.

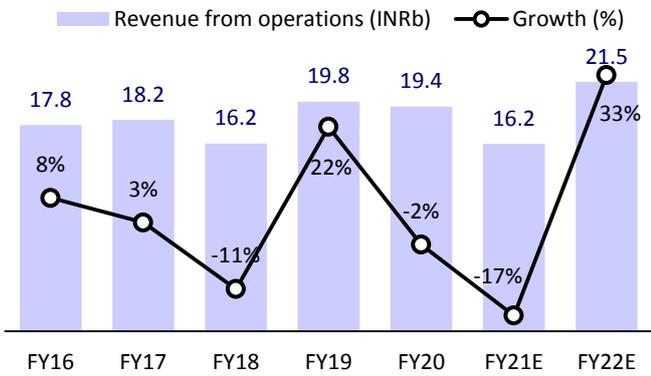
Exhibit 1: Valuation

Nav Calculation	Method	Matric	INR m	per share (INR)	%
Retail (Malls)	NPV	DF 13.5%, CR 9.5%	93,809	589	74%
Commercial	NPV	DF 13.5%, CR 9.5%	11,531	72	9%
Hotel	EV/EBITDA	14x FY22 EBITDA	8,724	55	7%
Residential & cash	NPV	DF 13.5%	12,192	76	10%
Net Asset Value			1,26,255	792	100%
CMP				584	
Up/down				36%	

Source: MOFSL, Company

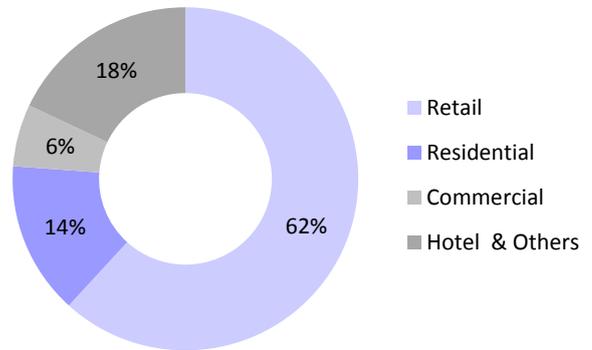
Story in charts

Exhibit 2: Expect revenue CAGR of 5% over FY20-22E



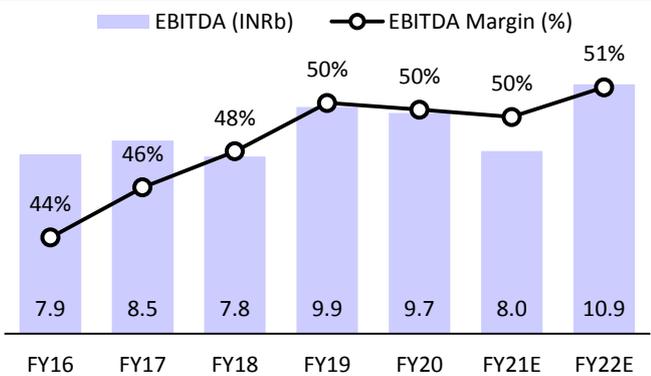
Source: Company, MOFSL

Exhibit 3: Revenue mix (FY20)



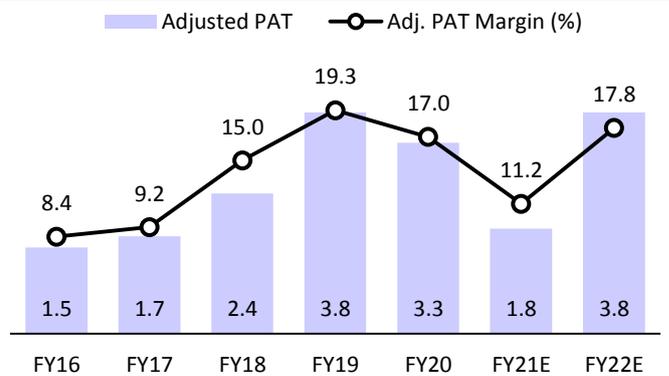
Source: Company, MOFSL

Exhibit 4: EBITDA and EBITDA margin trend



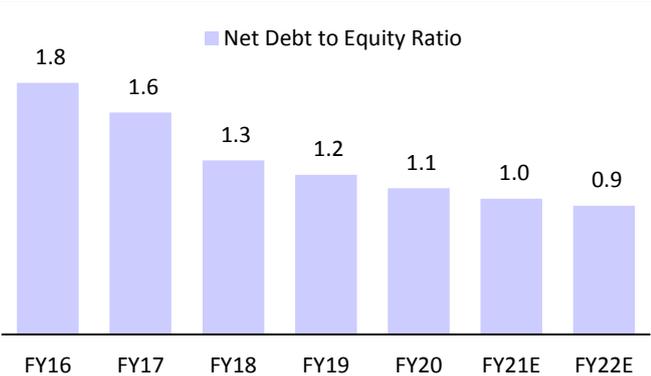
Source: Company, MOFSL

Exhibit 5: Expect adj. PAT CAGR of 8% over FY20-22E



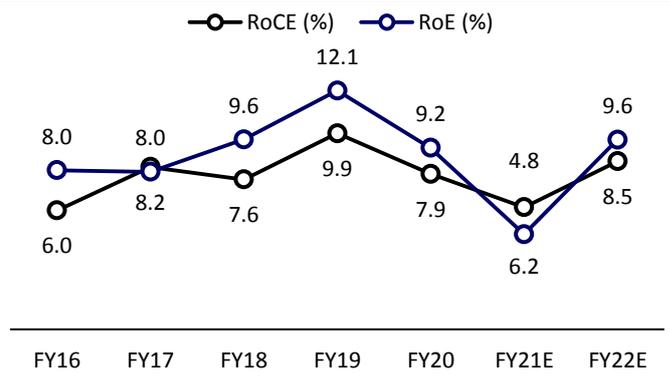
Source: Company, MOFSL

Exhibit 6: Debt to equity declining trend



Source: Company, MOFSL

Exhibit 7: RoE/RoCE trend



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	16,533	17,795	18,246	16,198	19,816	19,411	16,165	21,506
Change (%)	14.1	7.6	2.5	-11.2	22.3	-2.0	-16.7	33.0
Total Expenditure	8,914	9,926	9,777	8,424	9,884	9,740	8,163	10,581
% of Sales	53.9	55.8	53.6	52.0	49.9	50.2	50.5	49.2
EBITDA	7,620	7,869	8,469	7,774	9,932	9,671	8,002	10,925
Margin (%)	46.1	44.2	46.4	48.0	50.1	49.8	49.5	50.8
Depreciation	1,681	1,773	1,953	1,983	2,042	2,076	2,069	2,249
EBIT	5,939	6,096	6,516	5,791	7,889	7,595	5,933	8,676
Int. and Finance Charges	3,956	4,425	4,230	3,476	3,506	3,478	3,802	3,848
Other Income	312	302	472	556	851	585	614	645
PBT bef. EO Exp.	2,295	1,974	2,758	2,871	5,235	4,702	2,745	5,473
EO Items	-938	-387	0	0	481	78	0	0
PBT after EO Exp.	1,357	1,587	2,758	2,871	5,716	4,780	2,745	5,473
Total Tax	493	767	858	758	1,099	1,221	701	1,398
Tax Rate (%)	36.3	48.3	31.1	26.4	19.2	25.4	25.5	25.5
Minority Interest	510	-470	221	-308	407	212	233	256
Reported PAT	354	1,289	1,679	2,422	4,210	3,347	1,811	3,819
Adjusted PAT	952	1,489	1,679	2,422	3,822	3,297	1,811	3,819
Change (%)	-22.5	56.5	12.8	44.2	57.8	-13.7	-45.1	110.8
Margin (%)	5.8	8.4	9.2	15.0	19.3	17.0	11.2	17.8

Consolidated - Balance Sheet

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	290	306	306	306	307	307	307	307
Total Reserves	16,447	19,967	21,566	28,213	34,435	36,777	37,951	41,038
Net Worth	16,737	20,273	21,872	28,519	34,741	37,084	38,258	41,345
Minority Interest	6,212	4,789	2,797	4,661	12,233	12,788	12,788	12,788
Total Loans	34,023	38,895	36,255	36,665	42,437	41,075	41,575	42,075
Deferred Tax Liabilities	-1,047	-1,096	-1,252	-1,392	-1,387	-585	-585	-585
Capital Employed	55,925	62,861	59,672	68,453	88,025	90,362	92,037	95,624
Gross Block	46,363	50,371	50,171	63,318	73,788	75,168	78,068	82,568
Less: Accum. Deprn.	5,061	6,824	8,139	10,356	12,277	14,353	16,422	18,671
Net Fixed Assets	41,302	43,547	42,031	52,962	61,511	60,815	61,646	63,897
Goodwill on Consolidation	2	1,933	3,341	3,713	3,713	3,711	3,711	3,711
Capital WIP	2,138	1,949	3,285	5,025	8,963	15,343	18,343	22,343
Total Investments	1,997	1,611	4,096	8,290	7,450	5,897	3,897	3,397
Curr. Assets, Loans&Adv.	19,928	24,104	16,449	13,589	18,133	19,096	17,503	20,699
Inventory	11,783	13,240	9,455	6,615	8,987	8,161	6,840	8,866
Account Receivables	2,192	2,786	1,470	1,292	1,955	2,017	1,680	2,235
Cash and Bank Balance	920	1,630	812	406	1,920	1,407	3,649	3,146
Loans and Advances	5,032	6,448	4,711	5,276	5,271	7,511	5,334	6,452
Curr. Liability & Prov.	9,441	10,282	9,529	15,126	11,744	14,499	13,063	18,423
Account Payables	1,462	1,616	1,254	6,584	1,700	1,117	936	1,214
Other Current Liabilities	7,217	8,115	7,431	7,498	9,394	12,621	11,319	16,134
Provisions	762	551	843	1,045	651	761	808	1,075
Net Current Assets	10,487	13,822	6,920	-1,538	6,388	4,597	4,440	2,276
Appl. of Funds	55,925	62,861	59,672	68,453	88,025	90,362	92,037	95,623

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	6.2	9.7	10.9	15.8	24.9	21.5	11.8	24.9
Cash EPS	17.2	21.3	23.7	28.7	38.2	35.0	25.3	39.5
BV/Share	109.1	132.1	142.5	185.8	226.4	241.6	249.3	269.4
DPS	2.1	2.2	0.4	2.6	3.0	3.0	3.5	4.0
Payout (%)	108.4	35.6	4.9	19.8	13.2	16.5	35.2	19.2
Valuation (x)								
P/E	94.2	60.2	53.4	37.0	23.5	27.2	49.5	23.5
Cash P/E	34.0	27.5	24.7	20.3	15.3	16.7	23.1	14.8
P/BV	5.4	4.4	4.1	3.1	2.6	2.4	2.3	2.2
EV/Sales	7.4	7.1	6.9	7.8	6.6	6.7	7.9	6.0
EV/EBITDA	16.1	16.1	14.8	16.2	13.1	13.4	15.9	11.8
Dividend Yield (%)	0.4	0.4	0.1	0.4	0.5	0.5	0.6	0.7
Return Ratios (%)								
RoE	5.6	8.0	8.0	9.6	12.1	9.2	4.8	9.6
RoCE	7.8	6.0	8.2	7.6	9.9	7.9	6.2	8.5
RoIC	7.4	5.8	8.2	8.0	10.2	8.2	6.6	9.7
Working Capital Ratios								
Asset Turnover (x)	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Inventory (Days)	260	272	189	149	166	153	154	150
Debtor (Days)	48	57	29	29	36	38	38	38
Creditor (Days)	32	33	25	148	31	21	21	21
Leverage Ratio (x)								
Interest Cover Ratio	1.5	1.4	1.5	1.7	2.3	2.2	1.6	2.3
Net Debt/Equity	2.0	1.8	1.6	1.3	1.2	1.1	1.0	0.9

Consolidated - Cash Flow Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	1,357	1,587	2,758	2,874	5,716	4,702	2,745	5,473
Depreciation	1,681	1,773	1,953	1,983	2,042	2,076	2,069	2,249
Interest & Finance Charges	3,777	4,237	3,909	3,309	3,134	2,893	3,188	3,203
Direct Taxes Paid	-891	-1,352	-438	-208	-804	-1,221	-701	-1,398
(Inc)/Dec in WC	-1,419	-1,940	5,853	7,417	-7,175	1,279	2,399	1,661
CF from Operations	4,505	4,304	14,035	15,374	2,913	9,729	9,699	11,188
Others	1,131	668	102	-232	-836	0	0	0
CF from Operating incl EO	5,636	4,972	14,138	15,142	2,077	9,729	9,699	11,188
(Inc)/Dec in FA	-1,074	-3,856	-1,847	-15,013	-14,606	-7,758	-5,900	-8,500
Free Cash Flow	4,562	1,116	12,291	129	-12,529	1,971	3,799	2,688
(Pur)/Sale of Investments	-1,326	96	-2,429	-3,412	1,508	1,553	2,000	500
Others	1,379	205	349	103	2,009	586	614	645
CF from Investments	-1,021	-3,555	-3,927	-18,322	-11,090	-5,619	-3,286	-7,355
Issue of Shares	30	2,760	22	25	49	0	0	0
Inc/(Dec) in Debt	-188	1,729	-6,647	410	5,301	-1,362	500	500
Interest Paid	-4,017	-4,469	-4,321	-3,516	-3,329	-3,478	-3,802	-3,848
Dividend Paid	-372	-727	-83	-442	-480	-554	-637	-732
Others	0	0	0	6,298	8,986	770	-233	-256
CF from Fin. Activity	-4,546	-707	-11,029	2,774	10,527	-4,623	-4,171	-4,336
Inc/Dec of Cash	69	710	-818	-406	1,514	-513	2,242	-503
Opening Balance	851	920	1,630	812	406	1,920	1,407	3,649
Closing Balance	920	1,630	812	406	1,920	1,407	3,649	3,146

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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