Equity Research

September 3, 2020
BSE Sensex: 38991

ICICI Securities Limited is the author and distributor of this report

Annual report analysis and TP revision

Real Estate

Target price: Rs780

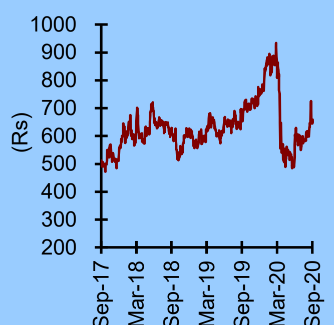
Target price revision
Rs780 from Rs800

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	59.1	59.1	59.1
Institutional investors	36.7	36.6	37.1
MFs and other	8.0	9.9	10.2
FIs/Banks/Ins	0.1	0.1	0.6
FIIs	28.6	26.6	26.3
Others	4.2	4.3	3.8

Source: NSE

Price chart



Research Analyst:

Adhidev Chattopadhyay
adhidev.chattopadhyay@icicisecurities.com
+91 22 6637 7451

INDIA

The Phoenix Mills

BUY
Maintained
Rs662

Fortress balance sheet, long term story intact

The Phoenix Mills (PHNX) has delivered 15% consumption CAGR and 14% rental income CAGR over FY13-20 prior to COVID-19 induced mall closures across India from mid-March 2020. While FY21 will be a tough year with an estimated 50% rental income loss, the recent QIP fund raise of Rs11bn and all nine operational malls reopening in Q2FY21 are directionally positive. We expect gradual improvement from H2FY21 and expect a strong recovery with FY22E rental income of Rs11.0bn vs. Rs10.0bn in FY20. We retain our BUY rating with a revised target price of Rs780/share (earlier Rs800) factoring in the recent QIP. We expect PHNX to achieve a 13% rental income CAGR over FY20-25E and remain positive on PHNX's long-term growth story as a proxy play on discretionary consumption.

- **Operational performance to sequentially improve:** With mall shutdowns across cities from mid-March 2020, PHNX's Q1FY21 mall rental collection stood at Rs843mn or ~29% of like-for-like rentals achieved in Q1FY20. However, with all of PHNX's nine completed malls having reopened as of 1st September 2020, rental income is expected to sequentially pick up from Q2FY21, subject to rental waivers/deferrals given to various retailers. As per PHNX, they have reached an agreement to waive 50% of rent for lockdown period with 75-80% of retailers (except for multiplexes). Further, post malls opening after lockdown, PHNX has moved from a 90% minimum guarantee and 10% revenue share model to a 30-40% revenue share until consumption returns to 70-80% of pre-COVID levels.
- **Fortress balance sheet mitigates risk and leaves room for growth:** As of June 2020, PHNX had gross debt of Rs47.5bn with cash of Rs7.5bn (net debt of Rs40.0bn). In August 2020, PHNX has raised equity of Rs11bn through the QIP route and currently has estimated cash reserves of ~Rs19bn. The healthy cash reserves will enable PHNX to tide over any short-term COVID-19 induced pain and also gives the company to pursue further asset acquisitions in a stressed market.
- **Estimated rental income CAGR of 13% over FY20-25E:** At a portfolio level, PHNX will have ~11msf operational mall space by FY23-24E (6.9msf currently operational including Palassio, Lucknow). After accounting for COVID-19 induced revenue loss of Rs5.0bn in FY21, we expect PHNX to achieve a 13% rental income CAGR (ex-CAM) at a portfolio level over FY20-25E which may result in PHNX clocking over Rs19bn of rental income in FY25E vs. ~Rs10bn in FY20. Of the Rs19.2bn of estimated gross rental income in FY25E, PHNX share is ~75% or Rs14.4bn.

Market Cap	Rs114bn/US$1.6bn
Reuters/Bloomberg	PHOE.BO/PHNX IN
Shares Outstanding (mn)	171.7
52-week Range (Rs)	934/484
Free Float (%)	40.9
FII (%)	26.3
Daily Volume (US$/'000)	4,182
Absolute Return 3m (%)	9.8
Absolute Return 12m (%)	(2.7)
Sensex Return 3m (%)	15.0
Sensex Return 12m (%)	7.8

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs bn)	19.4	10.5	18.8	21.7
Rec. Net Income (Rs bn)	3.3	0.1	2.7	4.2
EPS (Rs)	21.9	0.5	15.6	24.5
% Chg YoY	(20.5)	(97.7)	NM	56.7
P/E (x)	30.3	NM	42.4	27.0
P/B (x)	2.7	2.4	2.3	2.1
EV/E (x)	15.1	28.9	15.9	12.6
Dividend yield (%)	0.6	0.6	0.6	0.6
RoCE (%)	9.5	3.5	7.3	9.2
RoE (%)	8.4	NM	4.8	7.4

Largest pan-India mall owner and developer

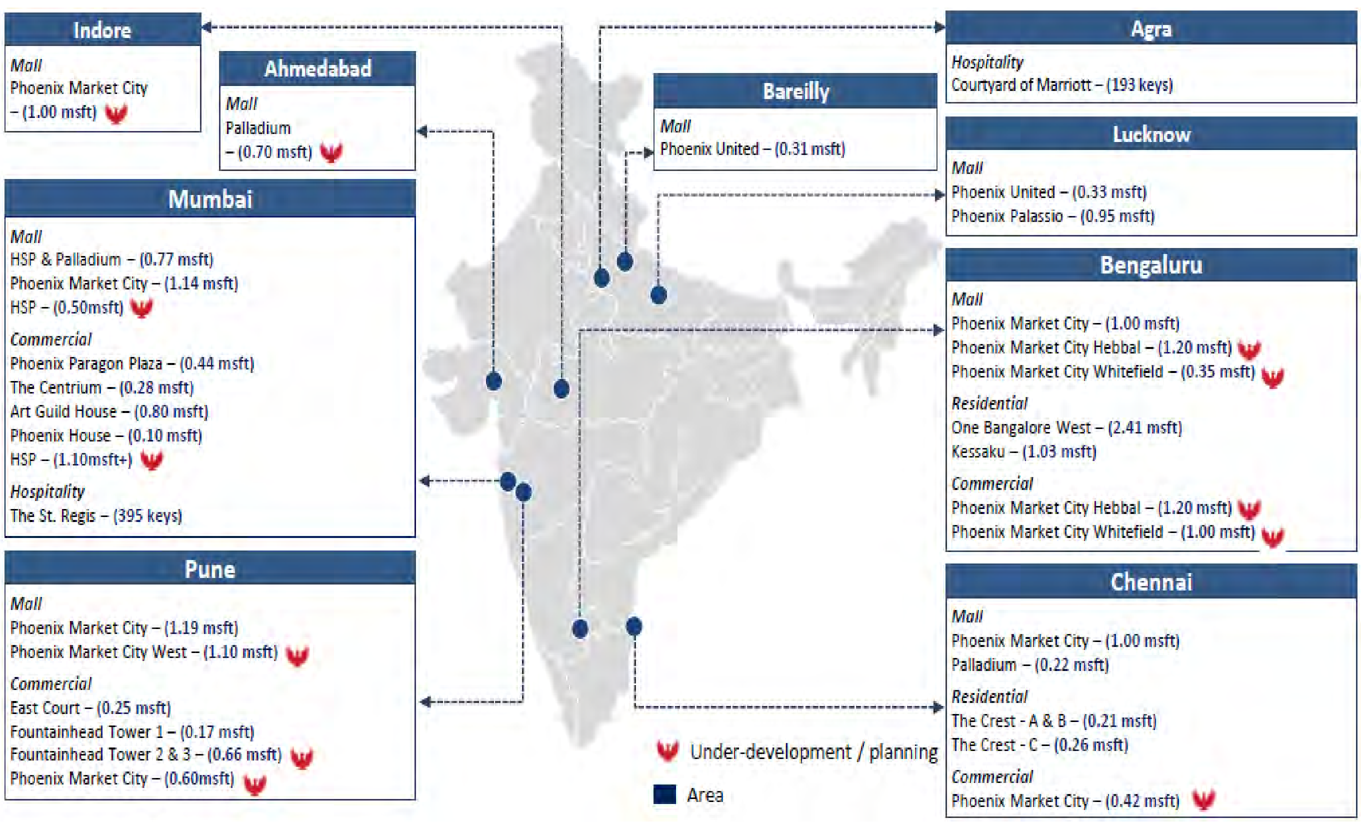
Strong mall operator with marquee operational assets

The Phoenix Mills (PHNX) currently has nine operational malls spread over 6.9msf which have achieved like-for-like 15% consumption CAGR over FY13-FY20 and 14% rental income CAGR over the same period. This has been achieved through a prudent tenant mix across its malls where higher share of F&B and entertainment tenants have helped to boost consumption and rentals.

PHNX also has five under-construction and under-development malls which are expected to be operational over FY22-25E spread over 4.9msf across Mumbai, Bengaluru, Pune, Ahmedabad and Indore.

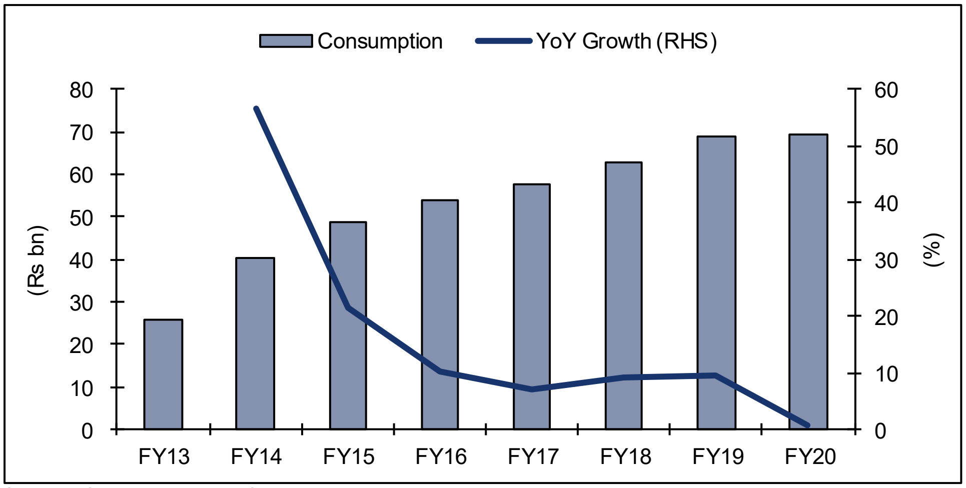
PHNX also has 4.0msf of residential projects under development which have clocked over Rs16bn of cumulative sales till date and also operates two hotels having 588 keys including the marquee St. Regis hotel in Mumbai.

Table 1: PHNX's asset portfolio across India



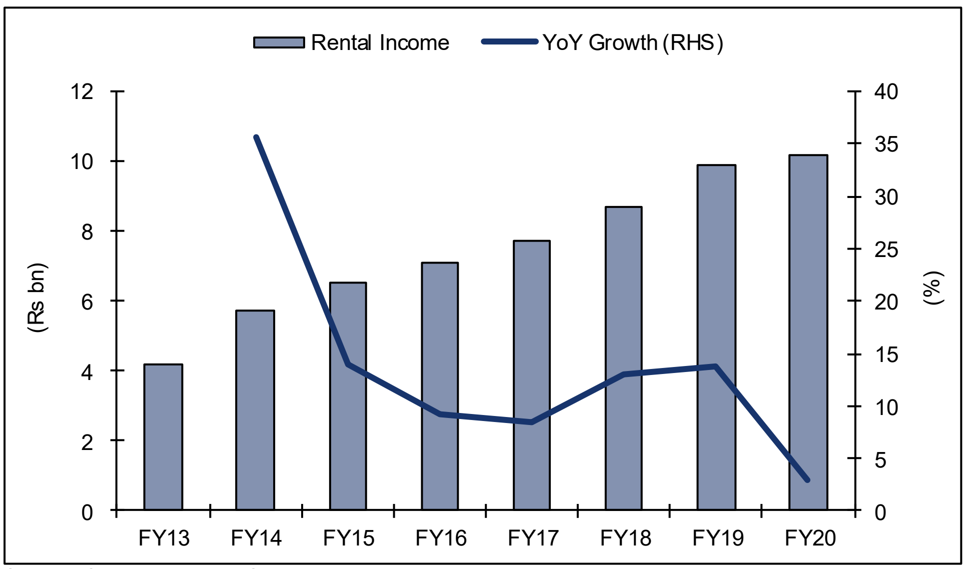
Source: Company data, I-Sec research

Chart 1 : Consumption CAGR of 15% over FY13-FY20



Source: Company data, I-Sec research

Chart 2: Rental income CAGR of 14% over FY13-FY20



Source: Company data, I-Sec research

COVID-19 to impact H1FY21 consumption/rentals

Owing to COVID-19 concerns, State Governments across India have ordered mall closures from 14th March, 2020 onwards for an indefinite period in cities such as Mumbai, Bengaluru, Pune and Chennai where PHNX's malls are located. As per our checks, only hypermarkets (groceries) in malls in these cities were operational. However, multiplexes, apparel/department stores, food QSRs and other retailers faced a double whammy of lost sales and having to pay store rentals which typically range between 15-25% of store revenue/consumption. **However, since July 2020 onwards, all of PHNX's nine malls have now reopened across India with multiplexes/food courts/gaming/entertainment zones yet to open in the malls.**

With the COVID-19 issue likely to linger till at least Q3FY21 (October-December 2020), in the worst case, PHNX stands to lose 45-50% of its FY21E revenue. As per PHNX, they have reached an agreement to waive 50% of rent for lockdown period with 75-80% of retailers (except for multiplexes). Further, post malls opening after lockdown, PHNX would consider a waiver of 30% on minimum guarantee for 3-6 months. We have assumed that PHNX will lose Rs5.0bn or 50% of FY20 rental income in FY21 (on like-for-like basis) owing to COVID-19 and expect FY22E rental income to recover to FY20 levels of Rs10.0bn. **Hence, we expect PHNX to now see 50% YoY decline in rental income (ex-CAM) to Rs5.1bn in FY21E (adjusted for some marginal revenues from new Lucknow mall).**

Table 1: Key historical numbers and assumptions (including new assets)

Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Rental properties							
Net rental income - 100% share	7,935	8,693	9,762	10,275	5,088	11,091	12,426
Net rental income - PHNX share	6,799	7,405	8,211	8,643	4,273	9,483	10,508

Source: Company data, I-Sec research estimates

Table 2: Operational mall area since re-opening from June 2020 as of July 2020

Asset	Total GLA	Permissible GLA	Operational GLA on 27th July	Operational GLA (%)* on 27th July
PMC Bangalore	1.0 msf (295 Stores)	0.83 msf (271 Stores)	0.72 msf (228 Stores)	87%
PU Lucknow	0.33 msf (127 Stores)	0.27 msf (102 Stores)	0.24 msf (85 Stores)	90%
PU Bareilly	0.31 msf (133 Stores)	0.25 msf (104 Stores)	0.24 msf (93 Stores)	94%

* Operational GLA (%) = Operational GLA / Permissible Area

Source: Company data, I-Sec research

Key Excerpts from FY20 Annual Report

Excerpts from the comments by Mr. Atul Ruia, the Chairman of Phoenix Mills from the FY20 annual report:

“I am writing this at a time, when the world is fighting a battle with the unprecedented pandemic, COVID-19. In March 2020, the contagion developed rapidly into a global crisis forcing the Government of India to impose a lockdown of all the economic activities in the country. The outbreak of this challenging pandemic occurred at a time when all our business segments were witnessing a sustained period of robust growth. Prior to the lockdown, we were recording strong growth across our retail portfolio until the end of February 2020.”

“Across our malls, we have witnessed a deceleration in the consumption levels resulting in a 40%-60% decline in March due to the subsequent nationwide lockdown. However, from the 8th of June 2020, we resumed operations at three of our malls – Phoenix Marketcity Bangalore, Phoenix United Lucknow and Phoenix United Bareilly. High Street Phoenix & Palladium, Phoenix Marketcity Mumbai & Phoenix Marketcity Pune opened on 5th Aug 2020. Also, on 1st of September 2020, Phoenix Marketcity & Palladium Chennai became operational.”

“With the re-opening of our retail destinations, we have ensured complete precautions by adopting the highest standards of safety and hygiene across all our assets. With a short-medium term decline in consumption, we have also realised that our retail partners too are in the midst of a massive disruption and based on the need of the hour, we have extended discounts on fixed rentals and allowed deferrals for the rent payable during the period of shutdown of malls, giving them all a chance to get through this phase with minimal pain as possible.”

“I am confident that as the lockdown eases in the coming days, the visibility of our retail business will improve. We anticipate that the pandemic will have a short to medium-term impact, and we remain confident on the long-term prospects of our business model. While our operation have been momentarily disrupted, we are confident that we will successfully revert to our long-term organic growth trend in both consumption and rental rates. In cities, where we have resumed mall operations, we are already witnessing the resumption of consumption nearing pre-COVID levels. As we return to new definitions of post-COVID normalcy, we expect our malls to continue to play their fundamental role as much needed and scarce social hubs within city-centres.”

“Despite a challenging business environment, we continue to maintain a resilient and robust balance sheet. Our consolidated debt stood at Rs45,732mn as of 31st March 2020. Our current position with cash and cash-equivalents provides us with sufficient liquidity to comfortably service our debt obligations, as well as meet our planned capex requirements. In fact, in Q1FY21, despite most of our properties being shut down due to lock-down, our cash inflow was Rs950mn and cash outflow was Rs750mn. We further expect our net cash position to improve in the coming quarters as our malls become operational.”

Excerpts from the comments by Mr. Shishir Srivastava, the Managing Director of Phoenix Mills from the FY20 annual report:

“FY2020 was a year of significant achievements for The Phoenix Mills Limited, as we expanded our business, enhanced our asset portfolio, strengthened our balance sheet, and remain committed to our vision of doubling our asset base by FY2024. Overall, FY2020 was a good year until the sudden outbreak of the COVID-19 pandemic challenged human lives and economies around the globe. With several measures taken by the Government of India to contain the virus, the nationwide lockdown imposed a temporary pause on our business operations. However, we expect that the pandemic and its surrounding impact will persist in the short to medium term for PML.

“In the long run, we are confident that our mindful business strategies will place us advantageously to bounce back from this crisis and emerge as a stronger company. Our resilient balance sheet and adequate liquidity positions will further provide us with the strength to explore new opportunities while continuing to meet our previously set targets.”

“At PML, our focus is directed towards becoming a true proxy to the Indian wallet. We want to be at the forefront of driving the consumption story of India. We aim to do this by making our assets the undisputed leaders in the industry and across different markets in India. While the next phase of growth will be determined by extending presence across the country, we are also equally excited about our growth promise derived from our densification strategy of our existing assets, as many of them harbour substantial potential for further development.”

“The unprecedented pandemic has presented considerable challenges to the economy, businesses and individuals. It has also affected the consumption behaviour of people to a large extent. It is difficult to estimate the length and severity of the reduction in demand due to COVID-19. However, even with these current challenges, I am confident that PML will be able to generate quality growth as India possesses all the underlying drivers ensuring that our consumption story stays intact. We believe that our business model will continue to be relevant in the times to come. As cities expand and urbanise, they provide opportunities for retail destinations to rise and become the ‘go-to-places’ in the town.

Table 3: Quarterly operating metrics

Rs mn	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Consumption						
High Street Phoenix (HSP)	4,755	4,013	4,228	4,017	5,195	3,663
Pune Market City	3,405	2,820	3,331	3,144	3,747	2,371
Bengaluru Market City	3,514	3,048	3,364	3,205	4,019	2,552
Kurla Market City	2,654	2,356	2,589	2,378	2,928	1,896
Chennai Market City	2,898	2,446	2,677	3,013	3,309	2,256
Total	**17,226**	**14,683**	**16,189**	**15,757**	**19,198**	**12,738**
Trading Density (Rs/psf) on Carpet Area						
High Street Phoenix (HSP)	3,271	2,827	3,025	2,816	3,620	3,208
Pune Market City	1,501	1,222	1,441	1,370	1,663	1,338
Bengaluru Market City	1,848	1,589	1,749	1,676	2,085	1,670
Kurla Market City	1,292	1,059	1,222	1,137	1,415	1,129
Chennai Market City	1,566	1,324	1,435	1,350	1,485	1,259
Rental Rate ((Rs/psf) of Leasable Area						
High Street Phoenix (HSP)	403	392	406	383	413	403
Pune Market City	123	116	125	124	136	128
Bengaluru Market City	124	118	124	126	138	130
Kurla Market City	99	97	101	102	108	110
Chennai Market City	139	137	139	140	141	139
Net Rental Income (ex-CAM)						
High Street Phoenix (HSP)	886	868	881	879	946	780
Pune Market City	416	406	432	427	458	350
Bengaluru Market City	361	347	359	360	400	307
Kurla Market City	311	310	323	320	339	283
Chennai Market City	388	384	394	475*	482*	385*
Total	**2,362**	**2,315**	**2,389**	**2,461**	**2,625**	**2,105**

Source: Company data, I-Sec research, *Includes Palladium Chennai

Renegotiations deferred by 6-12 months

PHNX's existing mall properties were on the cusp of seeing healthy upward rental renegotiations and with over 50-70% space up for renewal across its key malls at High Street Phoenix and all Market City malls over FY21-FY23E, PHNX was in the process of negotiating existing leases with tenants.

However, post COVID, PHNX has deferred contract renewal discussion and extended existing contracts by 6 to 12 months on same rental (minimum guarantee) terms.

Chart 3: HSP and Palladium

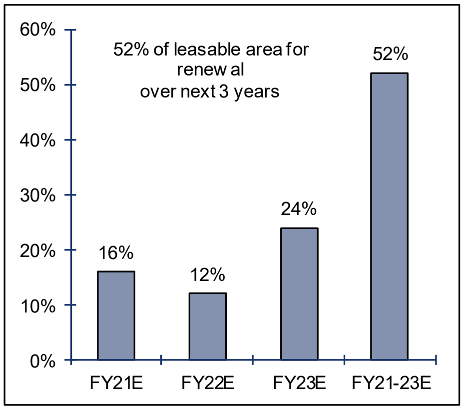


Chart 4: PMC Bangalore

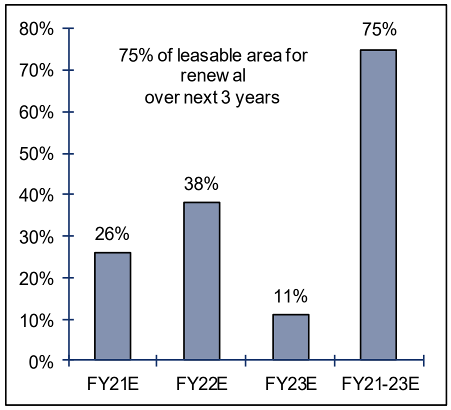


Chart 5: PMC Mumbai

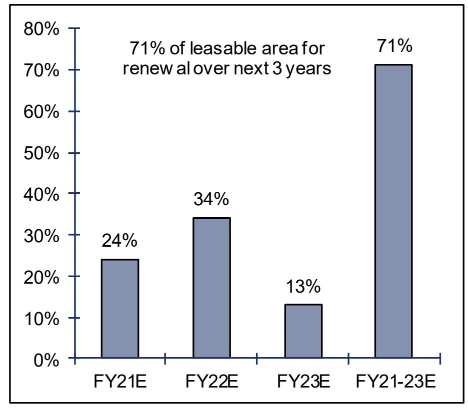


Chart 6: PMC Pune

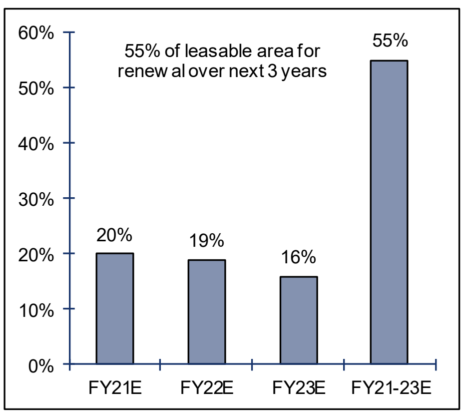
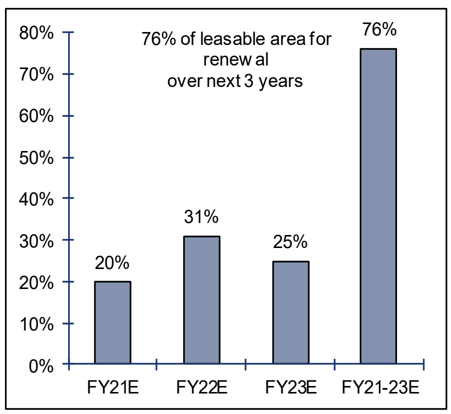


Chart 7: PMC Chennai



Source: Company data, I-Sec research

Well-funded for growth

In FY19, PHNX received the additional balance infusion of Rs9bn from CPPIB towards its 49% stake in the Island Star, Bengaluru Mall SPV. This money was redeployed for equity infusion in 3 upcoming mall projects in Hebbal in Bengaluru, Wakad in Pune and Indore Mall.

In FY20, overall gross debt remained flat Rs45.7bn with debt in operational assets reducing marginally on a YoY basis by Rs1.3bn to Rs40.2bn. However, incremental capex on the Pallasio Lucknow Mall, led to PHNX having Rs5.5bn of under-construction debt. As of March 2020, PHNX had cash and liquid investments of over Rs7.0bn as mall closures took place owing to COVID-19.

In August 2020, PHNX has recently raised Rs11bn through a QIP equity issuance which should enable it to tide over any cash flow mismatches in FY21 and also keeps the company well- funded to pursue any strategic acquisitions for new assets.

Table 4: PHNX Consolidated Balance Sheet FY18-20

	FY18	FY19	FY20	FY20 chg YoY	Comments
Sources of Capital:					
Equity Share Capital	306	307	307	-	
Reserves & Surplus	28,213	34,435	36,777	2,342	Net profit for the year less dividends, adjustments for INDAS115 project completion net write back
Net Worth	**28,519**	**34,741**	**37,083**	**2,342**	
Minority Interest	**4,661**	**12,233**	**12,788**	**555**	CPPIB 49% share of additional Rs9.0bn infused in FY19 and share of profits in FY20
Gross Debt	**40,121**	**45,469**	**45,731**	**262**	Operational asset debt down marginally YoY. Operational asset debt of Rs40.2bn and under-construction debt of Rs5.5bn for capex in retail assets.
Deferred Taxes	(1,394)	(1,390)	(612)	778	
Total Sources of Capital	**71,907**	**91,053**	**94,990**	**3,937**	
Assets:					
Total current assets	13,763	18,159	19,117	958	
Of which cash and cash equivalents	406	1,920	1,407	(513)	Cash and liquid investments of Rs7.3bn as of March 2020. Post recent QIP fund raise of Rs11bn, this currently stands at ~Rs19bn
Total current liabilities and provisions	11,821	8,716	9,871	1,155	
Net current assets	**1,942**	**9,444**	**9,246**	**(198)**	
Investments & Goodwill	**12,001**	**11,161**	**9,608**	**(1,553)**	Decline in current investments
Net fixed assets	52,939	61,489	60,795	(693)	
Capital WIP	5,025	8,960	15,341	6,381	Capex on upcoming retail projects
Total Assets	**71,907**	**91,053**	**94,990**	**3,937**	

Source: Company, I-Sec Research

Operational retail portfolio to be ~11msf by FY24E

PHNX has closed 5 acquisitions – land parcels in Bengaluru and Ahmedabad, under-construction retail assets in Lucknow and Indore between April-July 2018. Along with the Wakad, Pune land acquisition in FY18, PHNX's under construction retail leasable portfolio has increased to ~4.9msf. PHNX also has further mixed-use development potential on these assets.

We expect PHNX to incur total capex of Rs50bn (including land) for development of these assets over FY19-24E funded by a 50:50mix of equity and debt. Under the CPPIB platform, 3 mall assets at Pune, Bengaluru and Indore will be developed at an estimated cost of Rs50bn (including land) to be funded by ~Rs19.5bn of equity (Rs16.6bn of CPPIB monies and Rs2.9bn of free cash flows from the existing Bengaluru East mall) and balance through debt and equity infusion by PHNX (overall 50:50 equity/debt mix).

We estimate that all these under-construction mall projects will result in PHNX delivering 13% rental income CAGR over FY20-25E with estimated rental income of Rs19.2bn in FY25E of which PHNX share is estimated at 75% or Rs14.4bn.

Table 5: PHNX's under construction retail portfolio

Project	Partnership/JV	Land Size (acres)	Development Potential	Land Cost	Comments
Pune	PHNX-CPPIB – 51% PHNX stake	15	1.6msf (1.1msf retail)	Rs1.94bn	Construction commenced in Feb 2019. Excavation has been completed and civil work has been completed till lower ground slab. Incurred capex of Rs4.6bn. Expect operations to commence in FY24
Bengaluru	PHNX-CPPIB – 51% PHNX stake	13	1.8msf (1.2msf retail)	Rs6.99bn	Construction commenced in Feb 2019. Excavation has been completed and civil work has been completed till basement slab. Incurred capex of Rs8.4bn. Expect operations to commence in FY23-24E
Indore	PHNX-CPPIB – 51% PHNX stake	19	1.0msf retail	Rs2.58bn	Acquired under-construction retail development. Balance construction commenced in June 2019. Expect operations to commence in FY22. Work is at an advanced stage. Incurred capex of Rs3.2bn
Ahmedabad	50:50 JV with Bsafal Group	5.2	0.7msf retail	Rs4.1bn	Formed a 50:50 JV with Bsafal Group. Expect operations to commence in FY23-24E. Capex incurred is Rs4.6bn. Excavation work is almost complete and casting of 1st floor is in progress

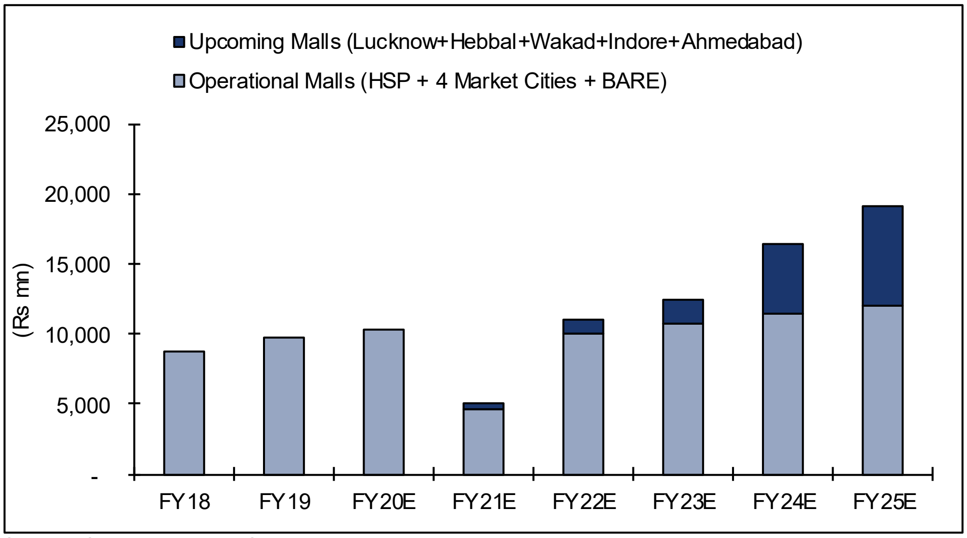
Source: Company data, I-Sec research

Table 6: Key historical numbers and assumptions (including new assets)

Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Rental properties							
Net rental income - 100% share	7,935	8,693	9,762	10,275	5,088	11,091	12,426
Net rental income - PHNX share	6,799	7,405	8,211	8,643	4,273	9,483	10,508

Source: Company data, I-Sec research estimates

Chart 8 : Rental income CAGR of 13% over FY20-25E



Source: Company data, I-Sec research

Valuations & views

- We like PHNX because: (1) it has a strong brand recall and the market leader in malls across India (2) it has strong pipeline of projects and (3) it is a derivative play on the Indian consumption story.
- We have valued PHNX on SoTP basis with a combination of DCF-based NAV on FY20E basis assuming a cap rate of 8% for rental assets.
- We retain our BUY rating with a revised target price of Rs780/share based on 1x FY21E NAV (earlier Rs800) as we factor in recent QIP equity fund raise of Rs11bn. Our NAV factors in a one-time like-for-like loss of Rs5.0bn of rental income in FY21 across existing malls and 6-9 months delay in under construction assets.
- Key upside risks are: Higher than expected rental income growth across operational malls and under-construction malls achieving higher than estimated rental income on commencement of operations.
- Key downside risks are: Slowdown in discretionary spend hurting consumption and rental growth owing to COVID-19 induced slowdown, competing malls set to become operational near High Street Phoenix in the medium term and online retail channels.

Table 7: SoTP valuation

Project	PHNX FY21E GAV (Rs mn)	Rs/share	% of GAV
High Street Phoenix	42,461	248	26.2
Kurla (Offbeat Developers)	16,653	97	10.3
Pune (Vamona Developers)	20,301	119	12.5
Bengaluru East (Island Star) – for 51% stake	10,775	63	6.6
Pune Wakad (CPPIB-Island Star) – for 51% stake	3,027	18	1.9
Bengaluru Hebbal (CPPIB-Island Star) – for 51% stake	7,543	44	4.7
Ahmedabad Market City (BSafal) – for 50% stake	2,023	12	1.2
Indore Market City (CPPIB-Island Star) – for 51% stake	2,204	13	1.4
Lucknow – Gomti Nagar Market City – for 100% stake	13,687	80	8.4
Bengaluru West (Palladium/Platinum)	6,720	39	4.1
Chennai (Classic Mall)	11,608	68	7.2
St. Regis Hotel (Pallazio)	11,360	66	7.0
BARE (Lucknow & Bareilly)	7,121	42	4.4
Others	6,623	39	4.1
Total GAV	**162,107**	**947**	**100.0**
Less : FY21E Net Debt (PHNX economic share)	28,640	167	
FY21E NAV	**133,467**	**780**	

Source: Company data, I-Sec research estimates

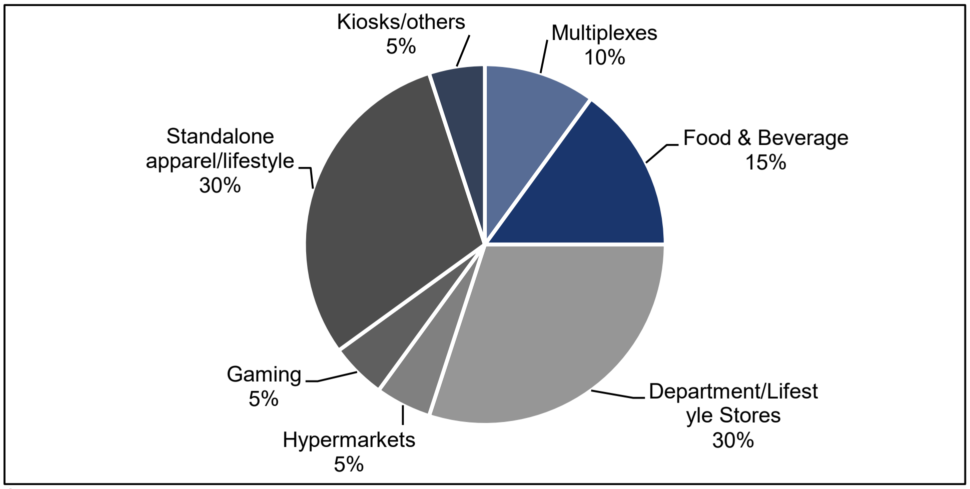
Annexure: Industry Scenario for Malls

Table 8: City-wise Operational Grade A Malls in Tier I cities

City-Wise	No. of Malls	% of Overall Malls
Mumbai Metropolitan Region (MMR) – Mumbai city/suburbs/Thane/Navi Mumbai	35	22.0
Bengaluru	29	18.2
New Delhi (NCR)	17	10.7
Pune	13	8.2
Hyderabad	13	8.2
Gurugram (NCR)	13	8.2
Chennai	12	7.5
Kolkata	11	6.9
Noida (NCR)	6	3.8
Greater Noida (NCR)	4	2.5
Others	6	3.8
Overall Tier I	**159**	**100.0**

Source: Anarock Capital, Isec research

Chart 9: Breakup of Retailer Wise Space Take-up in Grade A Malls



Source: Industry sources, Isec research

Table 9: City-wise Upcoming Mall Supply (CY20-22E)

City-Wise	Supply (msf)	No. of Malls	Average Mall Size (msf)
MMR	7.8	18	0.43
NCR	7.5	13	0.58
Hyderabad	5.5	12	0.46
Bengaluru	5.9	10	0.59
Chennai	4.3	9	0.48
Pune	2.6	4	0.65
Kolkata	1.9	3	0.63
Total Tier I	**35.5**	**69**	**0.51**
Ahmedabad	3.2	6	0.53
Lucknow	2.5	4	0.63
Nagpur	0.9	2	0.43
Surat	0.7	2	0.35
Others	6.2	17	0.36
Total Tier II/III	**13.5**	**31**	**0.43**
Overal Tier I + Tier II/III	**49.0**	**100**	**0.49**

Source: Anarock Capital, Isec research

What are the challenges for stakeholders in malls?

- **Organised retailers/tenants:** Typically, a superior mall has a mix of tenants across sectors such as department stores, apparel, white goods, jewellery, fine dining and QSR food outlets, gaming zones and multiplexes. Pre-COVID, rental costs for retailers (including facility management and common area maintenance) accounted for 15-25% of store consumption/revenue.

  With malls in India now closed for over two months since mid-March 2020, retailers have had to forego revenues for this period and may have to potentially bear the store rental costs as well. When malls have eventually reopened across India (Bengaluru and Lucknow malls opened the earliest from 8th June, 2020), certain categories such as apparel and department stores along with food QSR operators may be able to kickstart sales. Multiplex operators may have to wait longer to commence operations and also generate footfalls depending on upcoming movie releases/content.

- **Mall owners/operators:** Malls are an annuity business with a few seasonal variations (sale season/festive season) which is captured through revenue share when store consumption crosses a fixed threshold. During leaner periods, a minimum guarantee ensures downside protection for the mall operator. With the COVID-19 issue likely to linger till at least Q1FY21 (April-June 2020), mall operators stand to lose 20-25% of their annual revenue assuming that a rent-free period is given to retailers.

  However, based on our industry interactions, while few mall operators such as Prestige Estates and Lodha Group have decided to give a full waiver for the period of lockdown (Brigade has given a 50% waiver for lockdown period), other major mall operators such as Phoenix Mills, DLF, Nexus Malls and Virtuous Retail have not taken any decision in this regard and will consider terms of rent payment after malls become operational again.

  While many retailers/tenants have cited Force Majeure clauses which would exempt them from paying rentals during the lockdown period, **our interactions with legal experts indicate that the Force Majeure clause may not apply in this case as there is no permanent damage to the store or goods in the store nor is there any permanent restriction of physical access to the store.** Further, as most operational malls run on Lease Rental Discounting (LRD) loans from banks which are self-liquidating in nature, non-receipt of rent payments would lead to default on principal and interest payments on the LRD loans. LRDs typically carry a repayment tenure of 8-12 years and currently most mall operators have opted for the temporary moratorium period of 3 months on payment of principal and/or interest on these LRD loans.

- **Consumers:** While malls are temporarily closed, discretionary consumption has also been limited with e-tailers having commenced delivery of non-essential items only in May 2020. Even when malls reopen, social distancing and safety norms, negative sentiment and economic uncertainty will influence consumption patterns which may take 2-3 quarters to normalise.

What is the way forward?

- **Bounce-back likely once situation improves:** Given the evolving situation with respect to COVID-19 across India, mall operators and their tenants/retailers potentially face losses in the March-June 2020 period.

  However, in case of an improved situation from Q3FY21 onwards (October 2020), we believe that consumers will flock back to malls. We derive comfort on this front from the fact that tier I malls in India have now evolved into lifestyle destinations and present a clean, safe and easily accessible entertainment option in India's Tier I cities. **However, the pace of recovery of consumption across individual malls and categories may vary widely before it settles down by Q4FY21 (January-March 2021).**

- **Retailers/mall operators likely to share losses:** Our interactions with mall operators/industry experts across India indicate that given the unprecedented nature of the event and malls being a relationship-based business, mall operators and retailers would work together for a feasible solution to minimise losses for all stakeholders.

  However, as individual tenant relationships with each mall operator matter significantly in the retail sector, we do not anticipate any blanket waivers for tenants. Depending on financial position of each mall operator, asset owners may have to infuse equity to cover losses in FY21E. **Mall owners with access to both public and private institutional capital will be better placed to weather the storm, in our view. While we have already built in a 40-50% revenue loss in FY21E for mall operators, health of individual retailers and capacity to pay may lead to higher rental income losses of 50-60% in FY21E.**

- **Jury still out on shift to pure revenue share:** There is an increasing clamour among retailers that they may want to shift to a pure revenue share model for rentals once malls reopen considering the risk of lower consumption. Various slabs of revenue sharing have been proposed across store categories and retailers are looking to do away with the minimum guarantee which was in place pre-COVID.

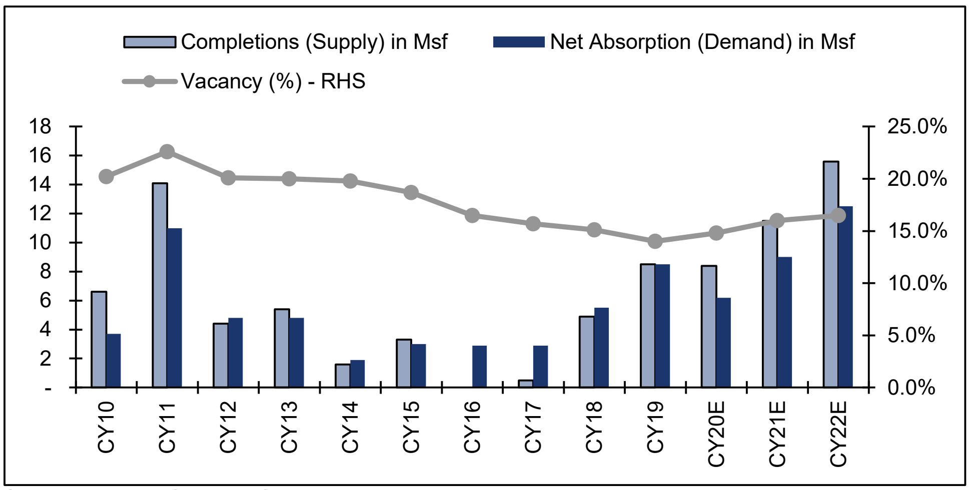
  However, we believe that a shift to a pure revenue share model is not a given as mall owners have to service principal/interest payments on LRD loans and possibly incur higher maintenance costs on sanitization and digitization post lockdown. **Pre-COVID, food and beverage (F&B) typically accounted for 12-18% of mall area (including kiosks) while multiplexes account for 7-9% of mall area and were a major driver of footfalls. While F&B operators may be able to generate revenue through online food delivery, multiplexes are the one area where clarity is yet to emerge on operations.**

  Rental renegotiations a question mark: Another key monitorable will be the progress in rental renegotiations from FY21 onwards with over 30-60% space up for renewal across Phoenix Mills' High Street Phoenix and all Market City malls over FY21-FY22E.

What is the outlook on upcoming mall supply?

- As per Anarock Retail, **India has another 100 upcoming malls spread across 49msf over CY20-22E in Tier I and Tier II/III cities. The upcoming supply is equivalent to the cumulative supply infusion of 49msf over the last decade (CY10-19).** The COVID-19 fallout may lead to rise in overall vacancies from 14% currently and upcoming supply met get pushed back further or shelved in many cases owing to lack of funding and overall economic slowdown.
- **In these challenging times, listed mall operators such as Phoenix Mills, DLF, Oberoi Realty, Prestige Estates and Brigade Enterprises who have access to both public and private institutional capital along with institutional mall operators such as Nexus Malls and Virtuous Retail would be able to go ahead with their greenfield malls projects, albeit at a reduced pace.**

Chart 10: Mall Space in India - Tier I cities (Supply-Demand Trends)



Source: Anarock Capital, I-Sec research

Table 10: Overall Upcoming Supply (CY20-22E)

	Supply (msf)	No. of Malls	Average Mall Size (msf)
Top 7 Cities	35.5	69	0.51
Tier 2/3	13.5	31	0.44
Total	**49.0**	**100**	**0.49**

Source: Anarock Capital, Isec research

Table 11: Metrics of Operational Malls of Listed Players (pre-COVID)

Company	Asset and Location	Leasable Area (msf)	Occupancy (%)	In-Place Rent (Rs/psf/month)	FY20E Gross Annualised Rentals (Rs mn)*
Phoenix Mills	High Street Phoenix, Mumbai	0.77	94%	401	3,600
Phoenix Mills	Pune Market City	1.19	95%	128	1,736
Phoenix Mills	Kurla, Mumbai Market City	1.14	92%	104	1,309
Phoenix Mills	Bengaluru East Market City	1.00	97%	129	1,502
Phoenix Mills	Chennai Market City (including Palladium)	1.22	96%	140	1,968
Phoenix Mills	Phoenix United, Lucknow	0.33	90%	90	321
Phoenix Mills	Phoenix United, Bareilly	0.31	90%	70	234
	Total Phoenix Mills	**5.96**			**10,670**
DLF - DCCDL	Mall of India, Noida	1.97	99%	106	2,481
DLF - DCCDL	DLF Avenue, New Delhi	0.52	97%	65	393
DLF - DCCDL	Promenade, New Delhi	0.46	100%	186	1,027
DLF - DCCDL	Cyber Hub, Gurugram	0.46	99%	127	694
DLF - DCCDL	Emporio, New Delhi	0.31	99%	359	1,322
DLF - DCCDL	City Centre, Chandigarh	0.19	70%	29	46
DLF non-DCCDL	South Square, New Delhi	0.06	95%	117	80
DLF non-DCCDL	Capital Point, New Delhi	0.09	100%	408	441
DLF non-DCCDL	Chanakya, New Delhi	0.02	95%	202	44
	Total DLF	**4.08**	**97%**		**6,528**
Brigade Enterprises	Orion Mall, Gateway, Malleswaram, Bengaluru	0.83	100%	110	1,094
Brigade Enterprises	Orion Avenue, Banaswadi, Bengaluru	0.15	92%	50	82
Brigade Enterprises	Vantage, Chennai	0.06	90%	65	40
	Brigade Enterprises Total	1.03	**98%**		**1,216**
Prestige Estates	Forum Celebration Mall, Udaipur	0.39	95%	46	229
Prestige Estates	Forum Mall Bengaluru, Koramangala, Bengaluru	0.35	95%	131	580
Prestige Estates	UB City Retail, Bengaluru	0.10	95%	348	440
Prestige Estates	The Forum Neighbourhood Mall, Whitefield, Bengaluru	0.29	95%	71	261
Prestige Estates	Forum Vijaya Mall, Chennai	0.64	95%	114	922
Prestige Estates	Forum Sujana Mall, Hyderabad	0.81	95%	91	926
Prestige Estates	Forum Fiza Mall, Mangaluru	0.66	95%	28	235
Prestige Estates	Forum Centre City Mall, Mysuru	0.34	95%	43	183
Prestige Estates	Prestige Mysore Central, Mysuru	0.06	95%	45	34
Prestige Estates	Forum Mall Shantiniketan, Whitefield	0.64	95%	75	609
	Prestige Estates Total	**4.28**	**95%**		**4,419**
Oberoi Realty	Oberoi Mall, Goregaon	0.55	97%	255	1,633

Source: Companies, Isec research estimates, *Gross numbers not adjusted for company share

Financial Summary (consolidated)

Table 12: Earnings statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Sales	**19,411**	**10,550**	**18,801**	**21,707**
Operating Expenses	**9,740**	**5,419**	**9,252**	**9,757**
EBITDA	**9,671**	**5,131**	**9,549**	**11,950**
% margins	50%	49%	51%	55%
Depreciation & Amortisation	2,076	2,467	2,620	2,738
Interest expenses	3,478	3,769	4,048	4,024
Other Income	585	702	737	774
Exceptional items	78	-	-	-
PBT	**4,624**	**(403)**	**3,618**	**5,961**
Less: Taxes	1,221	(81)	724	1,192
PAT before Minority/Associate	**3,403**	**(322)**	**2,894**	**4,769**
Minority/Associate share	(56)	407	(219)	(576)
Net Income (Reported)	**3,347**	**85**	**2,675**	**4,193**

Source: Company data I-Sec research

Table 13: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	19,117	31,476	30,963	33,557
of which cash & cash eqv.	1,407	14,016	13,752	16,597
Total Current Liabilities & Provisions	9,871	8,180	8,030	10,781
Net Current Assets	**9,246**	**23,295**	**22,933**	**22,776**
Goodwill/Investments	9,608	9,608	11,608	13,608
Net Fixed Assets	60,795	62,212	61,900	62,857
Capital WIP	15,341	13,269	18,496	21,142
Total Assets	**94,990**	**1,08,384**	**1,14,937**	**1,20,383**
Liabilities				
Borrowings	45,731	48,731	52,731	53,731
Equity Share Capital	307	343	343	343
Reserves & Surplus*	36,777	47,199	49,173	52,665
Net Worth	**37,083**	**47,542**	**49,516**	**53,008**
Minority Interest	12,788	12,723	13,302	14,256
Deferred Taxes	(612)	(612)	(612)	(612)
Total Liabilities	**94,990**	**1,08,384**	**1,14,937**	**1,20,383**

Source: Company data I-Sec research

Table 14: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT	**4,624**	**(403)**	**3,618**	**5,961**
Depreciation	2,076	2,467	2,620	2,738
Non-Cash Adjustments	(914)	(913)	(912)	(911)
Working Capital Changes	(985)	(1,441)	99	3,001
Taxes Paid	(1,221)	81	(724)	(1,192)
Operating Cashflow	**3,581**	**(209)**	**4,702**	**9,597**
Capital Commitments	(7,801)	(1,811)	(7,536)	(6,340)
Free Cashflow	**(4,220)**	**(2,020)**	**(2,834)**	**3,257**
Other investing cashflow	-	-	(2,000)	(2,000)
Cashflow from Investing Activities	**(7,801)**	**(1,811)**	**(9,536)**	**(8,340)**
Issue of Share Capital*	63	11,000	-	-
Inc (Dec) in Borrowings	878	3,000	4,000	1,000
Dividend paid	(555)	(627)	(701)	(701)
Cashflow from Financing activities	**387**	**13,373**	**3,299**	**299**
Chg. in Cash & Bank balances	**(3,833)**	**11,353**	**(1,535)**	**1,556**

Source: Company data I-Sec research, *QIP issue in FY21

Table 15: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	21.9	0.5	15.6	24.5
Cash EPS	35.4	14.9	30.9	40.5
Dividend per share (DPS)	3.7	4.1	4.1	4.1
Book Value per share (BV)	242.4	277.7	289.3	309.7
Growth (%)				
Net Sales	(2.0)	(45.7)	78.2	15.5
EBITDA	(2.6)	(46.9)	86.1	25.1
PAT	(20.5)	(97.5)	3,054.6	56.7
Valuation Ratios (x)				
P/E	30.3	1,336.3	42.4	27.0
P/BV	2.7	2.4	2.3	2.1
EV / EBITDA	15.1	28.9	15.9	12.6
Dividend Yield	0.6	0.6	0.6	0.6
Operating Ratios				
Debt/EBITDA (x)	4.7	9.5	5.5	4.5
Net D/E	1.2	0.7	0.8	0.7
Return Ratios (%)				
RoE	8.4	(0.6)	4.8	7.4
RoCE	9.5	3.5	7.3	9.2
EBITDA Margins	49.8	48.6	50.8	55.1
Net Income Margins	17.2	0.8	14.2	19.3

Source: Company data I-Sec research

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