

## Well capitalised for growth ahead...

Key highlight for Phoenix Mills (PML) was improving consumption at retail malls with festivities amid the expected weak Q2FY21 prints. While Q2FY21 consumption was at 40-55% of Q2FY20, October 2020 consumption was up 44% MoM. Furthermore, for the first seven days of November were ~85% of last year (~75% on adjusted basis). In Q2FY21, reported revenues degrew ~48% YoY to ₹ 214.9 crore, with core portfolio (commercial + retail + hospitality) revenues down ~58% YoY to ₹ 170.1 crore, amid retail rental waivers and weak hospitality performance. Reported EBITDA margin was down 810 bps YoY to 42.7%. The company reported a loss of ₹ 35.9 crore.

## Economic activity resumption to drive recovery of malls

Rental income in H1FY21 at ~₹ 170.5 crore, was at ~33% of H1FY20. However, with resumption of all malls, key categories like multiplex, F&B along with improved consumption, we expect H2 rental revenues to rise sharply, albeit lower than H2FY20 given revenues share (albeit 150-200 bps higher), discounted minimum guarantee till H2FY20. Given management guidance, we expect ~50% decline on like-to like-basis in rental revenues (ex-CAM charges) in FY21. With clawback clause (as part of waivers in FY21) kicking in, we do not rule out positive surprise in rental growth in FY22, in case economic rebound is consistent. Over the medium term, we expect retail rental income to grow at ~13% CAGR to ₹ 1920 crore in FY20-25E.

## Commercial stable; residential traction surprises positively

The residential segment revenues were at ₹ 44.7 crore, up 3x YoY driven by healthy demand of ready to move in inventory. Additional sales of ₹ 61.9 crore were completed in H1FY21 for which registration is pending, implying healthy traction in Q3 also. Commercial remained relatively resilient with revenue at ₹ 24.8 crore, down 6.1% YoY. The company also has 1.08 msf office portfolio under development between Fountainhead – Tower 2&3 (0.66 msf) and at Phoenix MarketCity, Chennai (0.42 msf), which are expected to be ready for fit-outs in the next two to three quarters.

## Valuation & Outlook

PML remains a quasi play on India's consumption story, notwithstanding this weak transient phase in FY21, given the quality of assets, healthy balance sheet & strategic expansion plans. The QIP fund raise of ~₹ 1089 crore has boosted the gross cash position and PML is poised to lap up a few assets as well as sail through with comfortable liquidity. With only five to six major retail mall developers currently in India, and given PML's USP of operating large format properties efficiently, it is likely to emerge as a superior player in the medium to long term. We maintain **BUY** rating with an SoTP based target price of ₹ 725/share.

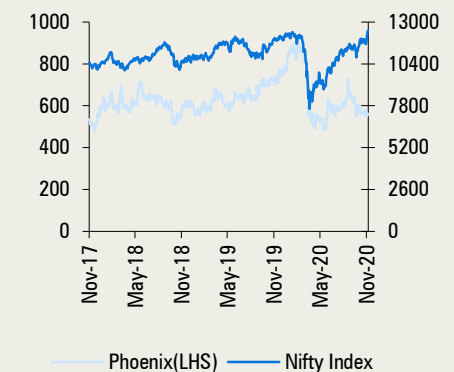


Particulars	
Particular	Amount (₹ crore)
Market Capitalization	10,516.5
Total Debt	4,573.2
Cash	140.7
EV	14,949.0
52 week H/L (₹)	980 / 466
Equity capital	30.7
Face value	₹ 2

### Key Highlights

- Over the medium term we expect retail rental income to grow at a CAGR of 13% to ₹ 1920 crore in FY20-25E.
- Maintain BUY with target price of ₹ 725/share

### Price performance



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## Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales (₹ crore)	1,619.8	1,981.6	1,941.1	1,194.9	2,083.7	3.6%
EBITDA (₹ crore)	777.4	993.2	967.1	491.4	1,069.7	5.2%
EBITDA margin (%)	48.0	50.1	49.8	41.1	51.3	
Adj. Net Profit (₹ crore)	242.2	372.9	327.0	13.7	399.2	10.5%
Adj. EPS (₹)	15.8	24.4	21.4	0.8	23.2	
P/E (x)	38.7	22.3	28.0	767.0	26.3	
EV/EBITDA (x)	17.8	14.4	15.3	28.3	13.0	
Price / Book (x)	3.3	2.7	2.5	2.2	2.0	
RoCE (%)	8.8	9.6	8.4	3.1	7.8	
RoE (%)	8.5	10.7	8.8	0.3	7.7	

**Exhibit 1: Variance Analysis**

	Q2FY21	Q1FY21E	Q2FY20	YoY (Chg %)	Q1FY21	QoQ (Chg %)	Comments
Income from Operation	214.9	167.2	415.1	-48.2	134.7	59.5	The revenue beat was owing to revenues recognition of ₹ 44.7 crore in residential segment. On the core portfolio (commercial + retail + hospitality) front, revenues declined by ~58% YoY to ₹ 170.1 crore.
Other Income	14.4	25.0	19.5	-25.7	13.1	10.0	
Total raw material Expense	19.2	-1.0	11.9	61.5	-0.8	-2,478.1	
Employee cost	22.8	25.3	39.8	-42.8	20.4	11.8	
Other expenditure	60.1	44.6	110.2	-45.4	35.9	67.5	
EBITDA	91.7	85.0	210.8	-56.5	70.3	30.4	
EBITDA Margin (%)	42.7	50.8	50.8	-812 bps	52.2	-951 bps	
Depreciation	54.1	50.2	50.9	6.3	50.2	7.7	
Interest	94.4	86.9	87.8	7.6	86.9	8.6	
PBT	-42.5	-27.2	99.3	-142.8	-53.8	-21.0	
Taxes	-2.5	-5.4	35.0	-107.1	-3.3	-23.6	
Reported PAT	-35.9	-14.3	65.8	-154.5	-42.4	-15.4	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY19	FY20	FY21E			FY22E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	1981.6	1941.1	1302.0	1194.9	-8.2	2,075.8	2083.7	0.4	Realigned numbers post H1 results
EBITDA	993.2	967.1	562.5	491.4	-12.6	1,060.7	1069.7	0.8	
EBITDA Margin (%)	50.1	49.8	43.2	41.1	-208 bps	51.1	51.8	66 bps	
PAT	421.0	334.7	60.5	13.7	-77.3	387.3	399.2	3.1	
EPS (₹)	27.5	21.8	3.9	0.8	NA	25.2	23.2	NA	

Source: Company, ICICI Direct Research

## Conference call Highlights

- **Retail Properties KPIs:** While Q2FY21 consumption was at 40-55% of Q2FY20, October 2020 consumption was up 44% MoM. Furthermore, the first seven days of November were ~85% of last year (~75% on adjusted basis). All malls are now operational from September, 2020 vs. three malls in June, 2020. Furthermore, malls were operating for 60-75% of operational hours in Q2FY21 vs. Q2FY20 and are now reverting back to original operational hours. The area under operation across major malls is at ~92% in October, 2020 and with multiplexes gradually reopening from November across cities, operational area is set to rise further in Q3
- **Residential business:** The residential segment reported revenues of ₹ 44.7 crore, up 3x YoY as the company witnessed healthy demand of ready to move in inventory and reconfiguration of Kessaku into smaller units. Collections for the quarter was ₹ 47 crore. Additional sales of ₹ 61.9 crore was completed in H1FY21 for which registration is pending, implying healthy traction in Q3 also. The company has ~₹ 1500 crore worth of completed inventory and has remaining construction cost of ₹ 50 crore in the residential segment
- **Hospitality portfolio:** Hospitality business revenues fell 87.8% YoY to ₹ 9.2 crore in Q2. St Regis witnessed ~24% occupancy in Q2 (~20% for H1) and reported an EBITDA loss of ₹ 3.3 crore during the quarter. In Agra, Courtyard Marriot operations were shut since March and reopened on August 8, 2020
- **Debt and capex:** Consolidated gross debt was at ₹ 4471 crore, down by ₹ 278 crore QoQ. Net debt declined to ₹ 3418 crore from ₹ 4371 crore in FY20, on the back of QIP of ~₹ 1089 crore done in August, 2020. Average cost of borrowing has reduced to 8.88% from 9.14% in Q1FY21 and is likely to decline further as downward repricing is expected in December and January. After a cash burn of ₹ 65 crore in Q1, the company generated cash surplus of ~₹ 100 crore in Q2, also aided by some I-T refunds. The company guided for capex of ₹ 320 crore in FY21, of which ₹ 137 crore has been spent in H1 while ₹ 180 crore will be spent in H2. Overall pending capex for retail malls is ~₹ 1500 crore, with majority of the remaining spends to be done in FY22, FY23

## Company Analysis

Exhibit 3: Retail income trend

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY Growth (%)	QoQ Growth (%)
<b>Rental Income (₹ crore)</b>							
HSP & Palladium	87.9	94.6	78.0	34.4	33.4	(62.0)	(2.9)
PMC Mumbai	32.0	33.9	28.3	8.7	8.7	(72.8)	-
PMC Bangalore	36.0	40.0	30.7	12.0	12.8	(64.4)	6.7
PMC Chennai*	47.5	48.2	38.5	13.4	7.4	(84.4)	(44.8)
PMC Pune	42.7	45.8	35.0	12.5	13.6	(68.1)	8.8

Source: Company, ICICI Direct Research

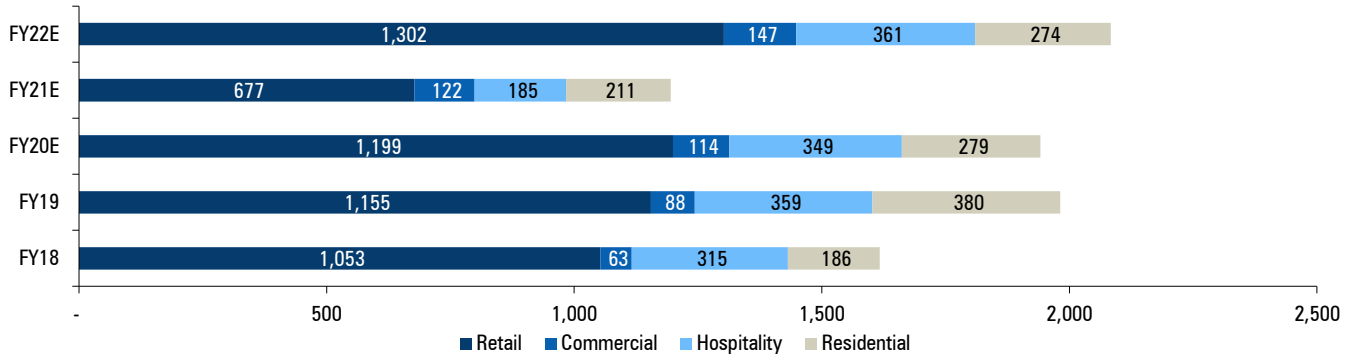
Exhibit 4: Commercial portfolio

Office	Location	Total Area (msf)	Area Sold(msf)	Net Leasable Area (msf)	Area Leased (msf)	Average Rate (₹/sq ft.)
<b>Operational</b>						
Phoenix Paragon Plaza	Mumbai	0.43	0.12	0.31	0.16	108
The Centrium	Mumbai	0.28	0.16	0.12	0.08	NA
Art Guild House	Mumbai	0.80	0.17	0.63	0.54	106
Phoenix House	Mumbai	0.09	-	0.09	0.08	NA
Fountainhead - Tower 1	Pune	0.17	-	0.17	0.16	86
<b>Total Operational</b>		<b>1.79</b>	<b>0.46</b>	<b>1.33</b>	<b>1.02</b>	

Source: Company, ICICI Direct Research

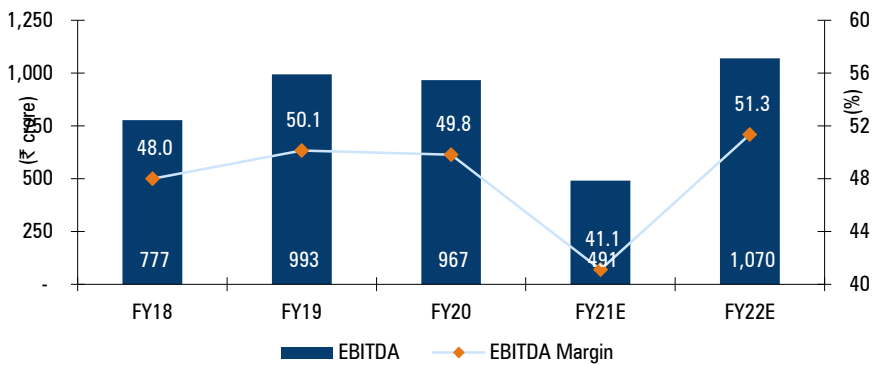
## Financial story through charts

Exhibit 5: Revenue trend



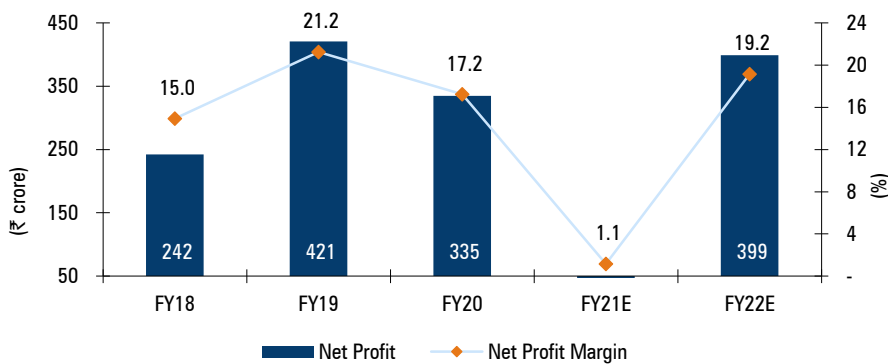
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 7: PAT trend



Source: Company, ICICI Direct Research

## Valuation & Outlook

PML remains a quasi-play on India's consumption story, notwithstanding this weak transient phase in FY21, given the quality of assets, healthy balance sheet & strategic expansion plans. The fund raise of ~₹ 1080 crore has boosted the gross cash position and PML is poised to lap up few assets as well as sail through with comfortable liquidity. With only five to six major retail mall developers currently in India, and given PML's USP of operating large format properties efficiently, it is likely to emerge as a superior player in the medium to long term. We expect ~50% decline on a like-to-like basis) in retail rental revenues (ex- CAM charges) in FY21. However, over the medium term, we expect retail rental income to grow at a CAGR of 13% to ₹ 1920 crore in FY20-25E. We maintain **BUY** rating with an SoTP based target price of ₹ 725/share.

Exhibit 8: Valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Value (₹ crore)	Value/ share (₹/ share)
<b>Retail</b>	<b>Leasable area (msf)</b>					
Retail Operational	6.8	12,063.7	3,074.9	8,988.8	7126	415
Retail under construction	3.6	2633	770	1863	945	55
<b>Retail Total</b>	<b>10.4</b>	<b>14,696</b>	<b>3,845</b>	<b>10,852</b>	<b>8,071</b>	<b>470</b>
<b>Commercial</b>	<b>Leasable area (msf)</b>					
Commercial Operational	1.0	1524	112	1412	1412	82
Commercial under construction	1.8	1297	0	1297	1190	69
<b>Commercial Total</b>	<b>2.8</b>	<b>2,821</b>	<b>112</b>	<b>2,709</b>	<b>2,603</b>	<b>152</b>
<b>Hospitality</b>	<b>No of keys</b>					
<b>Hospitality Total</b>	<b>588</b>	<b>2,520</b>	<b>1,032</b>	<b>1,488</b>	<b>1,083</b>	<b>63</b>
<b>Residential</b>	<b>Saleable area (msf)</b>					
<b>Residential Total</b>	<b>3.7</b>	<b>1,077</b>	<b>165</b>	<b>912</b>	<b>728</b>	<b>42</b>
<b>Grand Total</b>	<b>17.0</b>	<b>21,115</b>		<b>15,961</b>	<b>12,484</b>	<b>727</b>
<b>Rounded Off target price</b>						<b>725</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
<b>Net Sales</b>	<b>1,981.6</b>	<b>1,941.1</b>	<b>1,194.9</b>	<b>2,083.7</b>
Other Income	85.1	58.5	69.3	72.8
Total revenues	2,066.7	1,999.6	1,264.2	2,156.5
Raw Material Expenses	218.9	195.9	120.6	210.3
Employee Cost	161.5	165.5	113.5	166.7
Other Expenditure	608.0	612.6	469.4	637.1
Total Operating Expenditure	988.4	974.0	703.5	1,014.0
<b>EBITDA</b>	<b>993.2</b>	<b>967.1</b>	<b>491.4</b>	<b>1,069.7</b>
Interest	350.6	347.8	327.8	310.6
Depreciation	204.2	207.6	229.3	260.7
<b>PBT</b>	<b>571.6</b>	<b>478.0</b>	<b>3.5</b>	<b>571.1</b>
Tax	109.9	122.1	0.9	142.8
<b>Reported PAT</b>	<b>421.0</b>	<b>334.7</b>	<b>13.7</b>	<b>399.2</b>
<b>EPS</b>	<b>27.5</b>	<b>21.9</b>	<b>0.8</b>	<b>23.2</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Equity Capital	30.7	30.7	34.3	34.3
Reserves & Surplus	3,443.5	3,667.7	4,754.2	5,176.7
Networth	3,474.1	3,698.4	4,788.5	5,211.0
Total Debt	4,243.5	4,573.2	4,532.6	4,536.7
Other financial liabilities	176.4	203.3	130.9	228.3
Deferred Tax Liability	0.3	2.8	2.8	2.8
<b>Source of Funds</b>	<b>9,118</b>	<b>9,756</b>	<b>10,731</b>	<b>11,317</b>
Gross Block	7,370.4	7,514.8	7,644.6	8,690.9
Less: Accumulated Dep	1,221.5	1,435.3	1,664.6	1,925.4
Net Block	6,148.9	6,079.5	5,980.0	6,765.6
Capital WIP	896.0	1,534.1	2,051.9	1,713.1
Total Fixed Assets	7,044.9	7,613.6	8,031.9	8,478.7
Investments	472.2	428.0	428.0	378.0
Inventories	898.6	816.1	491.0	799.2
Trade Receivables	195.5	201.7	117.9	205.5
Loans & Advances	21.2	9.7	6.0	10.4
Cash & Bank Balances	192.0	140.7	1,121.3	1,096.3
Other Current Assets	285.8	406.4	229.2	399.6
Total Current Assets	1,865.9	1,736.3	2,012.0	2,511.1
Trade Payable	147.7	110.3	67.9	118.5
Provisions	63.0	76.1	43.6	64.5
Other Current Liabilities	787.3	526.9	320.8	559.5
Total Current Liabilities	998.0	713.3	432.3	742.5
Net Current Assets	867.9	1,023.0	1,579.7	1,768.7
<b>Application of Funds</b>	<b>9,118</b>	<b>9,756</b>	<b>10,731</b>	<b>11,317</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
<b>Profit after Tax</b>	<b>421.0</b>	<b>334.7</b>	<b>13.7</b>	<b>399.2</b>
Depreciation	204.2	207.6	229.3	260.7
Interest paid	350.6	347.8	327.8	310.6
Cash Flow before wc changes	1,005.6	1,033.4	560.7	1,142.5
Net Increase in Current Assets	(465.7)	7.7	589.9	(570.7)
Net Increase in Current Liabilities	(251.8)	(255.4)	(353.4)	407.5
<b>Net cash flow from op. activities</b>	<b>207.7</b>	<b>663.7</b>	<b>796.3</b>	<b>836.5</b>
Purchase of Fixed Assets	(1,464.5)	(781.9)	(647.6)	(707.5)
(Purchase)/Sale of Investments	(1,234.4)	44.2	-	50.0
<b>Net cash flow from inv. activities</b>	<b>(1,099.2)</b>	<b>(705.7)</b>	<b>(523.8)</b>	<b>(578.2)</b>
Proceeds from Long Term Borrowir	420.5	329.7	(40.6)	4.1
Interest paid	(332.9)	(347.8)	(327.8)	(310.6)
<b>Net cash flow from fin. activities</b>	<b>1,052.7</b>	<b>(15.1)</b>	<b>708.0</b>	<b>(283.2)</b>
Net Cash flow	161.2	(57.1)	980.5	(24.9)
Opening Cash	30.8	192.0	140.7	1,121.3
<b>Closing Cash</b>	<b>192.0</b>	<b>140.7</b>	<b>1,121.3</b>	<b>1,096.3</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
<b>Per Share Data</b>				
Reported EPS	27.5	21.9	0.8	23.2
Cash EPS	40.8	35.4	14.2	38.4
BVPS	226.9	241.5	278.9	303.5
<b>Operating Ratios</b>				
EBITDA / Net Sales	50.1	49.8	41.1	51.3
PAT / Net Sales	18.8	16.8	1.1	19.2
<b>Return Ratios</b>				
RoE	10.7	8.8	0.3	7.7
RoCE	9.6	8.4	3.1	7.8
RoIC	11.5	10.8	3.9	10.6
<b>Valuation Ratios</b>				
EV / EBITDA	14.4	15.3	28.3	13.0
P/E	22.3	28.0	767.0	26.3
EV / Net Sales	7.2	7.6	11.6	6.7
Market Cap / Sales	5.3	5.4	8.8	5.0
Price to Book Value	2.7	2.5	2.2	2.0
<b>Turnover Ratios</b>				
Asset turnover	0.2	0.2	0.1	0.2
Gross Block Turnover	0.3	0.2	0.1	0.2
<b>Solvency Ratios</b>				
Net Debt / Equity	1.1	1.2	0.7	0.7
Current Ratio	1.4	2.0	2.0	1.9
<b>Quick Ratio</b>	<b>0.5</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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