

Phoenix Mills

Estimate changes



TP change



Rating change



Bloomberg	PHNX IN
Equity Shares (m)	153
M.Cap.(INRb)/(USDb)	106.7 / 1.4
52-Week Range (INR)	980 / 466
1, 6, 12 Rel. Per (%)	3/-20/-22
12M Avg Val (INR M)	210

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Net Sales	19.4	11.3	20.3
EBITDA	9.7	5.5	10.3
EBITDAM %	49.8	49.0	50.9
NP	3.3	0.4	3.5
EPS (INR)	21.5	2.9	22.9
EPS Gr. (%)	-14	-87	697
BV/Sh. (INR)	242	312	330

Ratios

Net D:E	1.1	0.8	0.8
RoE (%)	9.2	1.0	7.1
RoCE (%)	7.9	3.6	7.2

Valuations

P/E (x)	28.9	216.4	27.1
P/BV (x)	2.6	2.0	1.9
EV/EBITDA (x)	14.0	24.3	13.1
EV/Sales (x)	7.0	11.9	6.7

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	45.6	59.1	59.2
DII	16.3	11.4	7.0
FII	33.9	25.7	26.3
Others	4.3	3.7	7.5

FII Includes depository receipts

CMP: INR622

TP: INR750 (+21%)

Buy

Retail consumption picking up; Outlook positive

- The Retail segment is seeing strong recovery post the resumption of operations at malls, while the Office segment remains steady. However, the Hospitality segment is unlikely to achieve normalcy in the short term.
- PHNX remains one of the best proxy plays on India's consumption story in the medium-to-long term. Reiterate **Buy**.

Consumption uptrend supported by festive season

- **2QFY21 performance:** PHNX's 2QFY21 revenues declined 48% YoY (up 60% QoQ) to INR2,149m (est. INR2,342m). EBITDA was down 57% YoY (up 30% QoQ) to INR917m (est. INR1,163m). The EBITDA margin contracted 810bp YoY to 42.7% (est. 49.7%). This was largely on account of RM cost (up 610bp YoY) coming in higher at 9% of sales. Adj. PAT-level loss stood at INR359m (v/s est. adj. PAT-level loss of INR136m), against adj. PAT of INR608m in 2QFY20.
- **Segmental performance:** The Retail segment declined 55% YoY to INR1,361m, largely on account of new rental structures, with waivers in place on Minimum Guarantee (MG) rents. Commercial declined 6.1% YoY to INR248m on account of some churn at the Art Guild House. Hospitality plunged 88% YoY to INR92m, impacted by continued travel restrictions. Residential reported revenue of INR447m (v/s NIL in 1QFY21 and INR112m in 2QFY20).
- **Consumption showing signs of revival:** All of the malls turned operational from Sep'20. Area under operation stood at ~92% at the end of Oct'20. Consumption as a percentage in 2QFY21 (on a like-to-like basis) was at 40–55%. Consumption has benefited from: (a) an increase in mall operational hours across cities, (b) the resumption of F&B, and (c) uptrend on account of the festive season. Furthermore, with the gradual resumption of operations at multiplexes, the trend is likely to improve.

Highlights from management commentary

- For multiplexes, PHNX waived off 100% of rentals in 1HFY21 (period of lockdown). For 3QFY21, the company would offer 75% waiver on MG and take 22% revenue share (v/s 17% in the old structure), and for 4QFY21, it would offer 50% waiver on MG and take 22% revenue share.

Valuation and view

- The Retail segment has continued to gain traction since the resumption of malls and subsequent opening up of F&B outlets as we traverse the path to normalcy. The Office segment remains largely stable. However, Hospitality remains a drag as travel restrictions continue to impact the business.
- We thus broadly maintain our estimates for the Retail, Office, and Residential segments, while we lower our FY21 estimates for Hospitality. We value PHNX's retail assets on the DCF-based NAV approach, assuming a cap rate of 9.5% and discount rate of 13.5%. Maintain **Buy**, with SOTP-based TP of INR750.

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

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Consolidated - Quarterly Earnings Model

(INR m)

Y/E March	FY20				FY21E				FY20	FY21E	FY20E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2Q	(%)
Gross Sales	6,150	4,151	5,118	3,992	1,347	2,149	3,695	4,083	19,411	11,273	2,342	-8%
YoY Change (%)	48.9	2.6	16.2	-44.8	-78.1	-48.2	-27.8	2.3	-2.0	-41.9	-43.6	
Total Expenditure	3,223	2,043	2,525	1,949	644	1,232	1,846	2,026	9,740	5,749	1,179	
EBITDA	2,927	2,108	2,593	2,043	703	917	1,849	2,056	9,671	5,524	1,163	-21%
Margins (%)	47.6	50.8	50.7	51.2	52.2	42.7	50.0	50.4	49.8	49.0	49.7	-701bps
Depreciation	507	509	514	545	502	541	520	524	2,076	2,088	512	
Interest	871	878	889	840	869	945	920	944	3,478	3,678	875	
Other Income	154	195	133	104	131	144	155	175	585	606	140	
PBT before EO expense	1,703	915	1,323	761	-538	-425	564	763	4,702	365	-84	NM
Extra-Ord expense	0	-78	0	0	0	0	0	0	-78	0	0	
PBT	1,703	993	1,323	761	-538	-425	564	763	4,780	365	-84	
Tax	234	350	358	279	-33	-25	64	86	1,221	92	-13	
Rate (%)	13.8	35.3	27.0	36.6	6.1	5.9	11.3	11.3	25.4	25.4	15.0	
MI & P/L of Asso. Cos.	165	-15	46	16	-81	-41	-20	-27	212	-169	65	
Reported PAT	1,304	658	919	467	-424	-359	520	704	3,347	441	-136	
Adj PAT	1,304	608	919	467	-424	-359	520	704	3,297	441	-136	NM
YoY Change (%)	118.3	-2.1	29.8	-75.1	NM	NM	-43.4	50.8	-13.7	-86.6	NM	
Margins (%)	21.2	14.6	17.9	11.7	-31.5	-16.7	14.1	17.2	17.0	3.9	-5.8	

E: MOFSL Estimates



Management commentary highlights

- **Consumption trend:** Consumption trends are seeing a marked improvement MoM. The first week of November saw consumption reaching 85% of last year's levels in many categories. The trend is largely driven by malls being allowed to operating in normal hours, the opening up of F&B outlets, and the festive season.
- **Segmental trends:** Trading density was at 75% in Fashion and Apparel (v/s the same period last year), 55–70% in F&B, 84% in Electronics, and ~100% (in some cases) in Watches and Jewelry, implying a sustained performance.
- Vacancy levels have not been significantly impacted and have increased just 100bps v/s pre-COVID levels.
- **On rental negotiations:** a) 90% of all the negotiations are complete; b) waivers are applicable up to the end of FY21; c) on average, the revenue share component has increased 100–200bp.
- **Multiplexes negotiations:** PHNX waived off 100% of rentals in 1HFY21 (lockdown period). For 3QFY21, the company would offer 75% waiver on MG and take 22% revenue share (v/s 17% in the old structure), and for 4QFY21, it would offer 50% waiver on MG and take 22% revenue share. From Apr'21, rental agreements are expected to move back to old terms. Over 2QFY22–2QFY23, the structure would be MG + 20% revenue share.
- **Debt levels:** Debt was down from INR47b at the end of 1QFY21 to INR45b, with avg. cost of borrowing at 8.88% in 2QFY21 (down 25bp from 9.14% in 1QFY21).
- **Update on Fountainhead:** a) Tower 1 is 95% leased and operational; b) the OC has been received for Tower 2; and c) Tower 3 is expected to turn operational by end-FY21. Tenant interest is moderate in the Fountainhead project.

Valuation and view

Best proxy to play India consumption story

- All retail malls are now operational, and consumption is improving sharply as India traverses the path back to normalcy. Demand is largely being driven by increased footfall as F&B outlets are being allowed to open up and the festive season commences. Demand traction is likely to improve as multiplexes resume operations. The Office segment's performance remains largely stable. However, the Hospitality segment is still reeling under the pressure of travel restrictions.
- PHNX remains on track to complete its under-construction leasing assets (four retail malls and two commercial assets) and is further evaluating retail assets across Tier I cities such as Chandigarh, Gurgaon, MMR, Chennai, etc. for inorganic growth opportunities.
- We believe 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.
- We broadly maintain our estimates for the Retail, Office, and Residential segments. On the other hand, we lower our FY21 estimates for Hospitality due to uncertainty around when travel restrictions would be lifting. We value PHNX's retail assets on a DCF-based NAV approach, assuming a cap rate of 9.5% and discount rate of 13.5%. Maintain **Buy**, with SOTP-based TP of INR750.

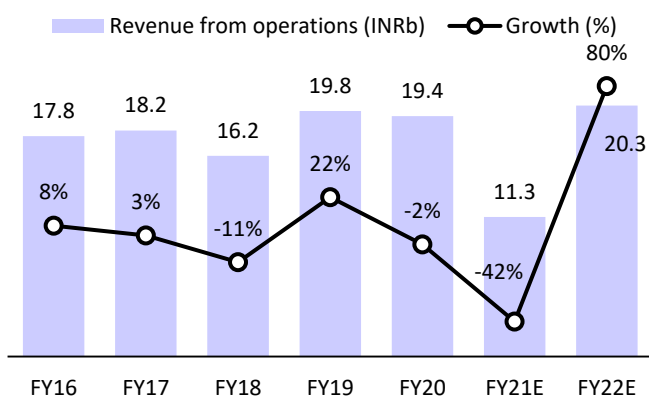
Exhibit 1: Valuation

Nav Calculation	Method	Matric	INR m	per share (INR)	%
Retail (Malls)	NPV	DF 13.5%, CR 9.5%	86,433	563	75%
Commercial	NPV	DF 13.5%, CR 9.5%	9,782	64	9%
Hotel	EV/EBITDA	12x FY22 EBITDA	6,927	45	6%
Residential & cash	NPV	DF 13.5%	11,941	78	10%
Net Asset Value			1,15,083	750	100%
CMP				621	
Up/down				21%	

Source: MOFSL, Company

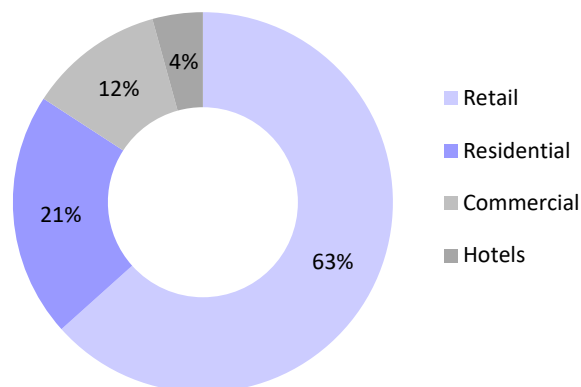
Story in charts

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



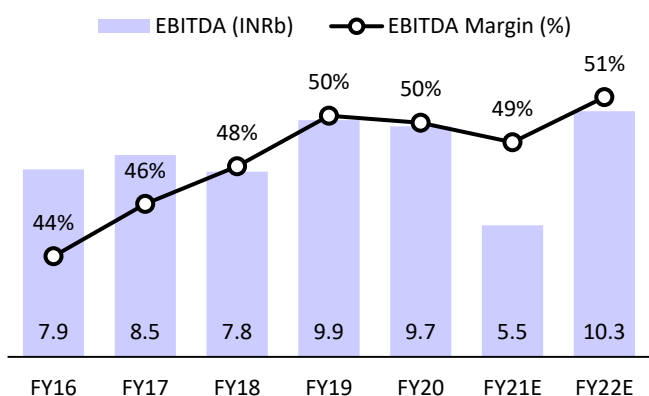
Source: Company, MOFSL

Exhibit 3: Revenue mix (2QFY21)



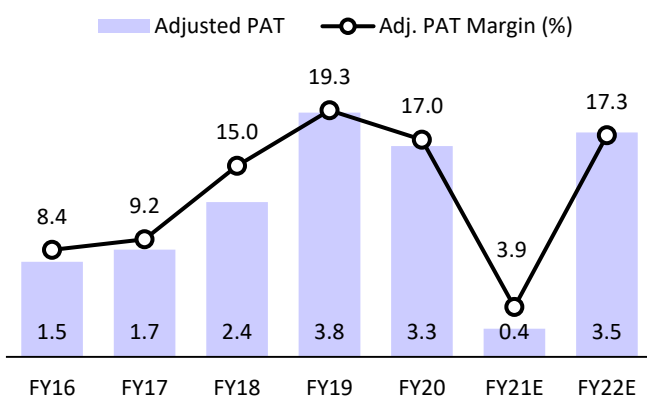
Source: Company, MOFSL

Exhibit 4: EBITDA and EBITDA margin trend



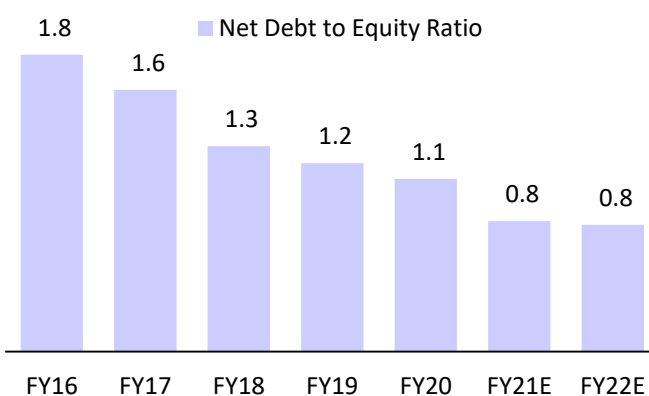
Source: Company, MOFSL

Exhibit 5: Expect adj. PAT CAGR of 3% over FY20–22E



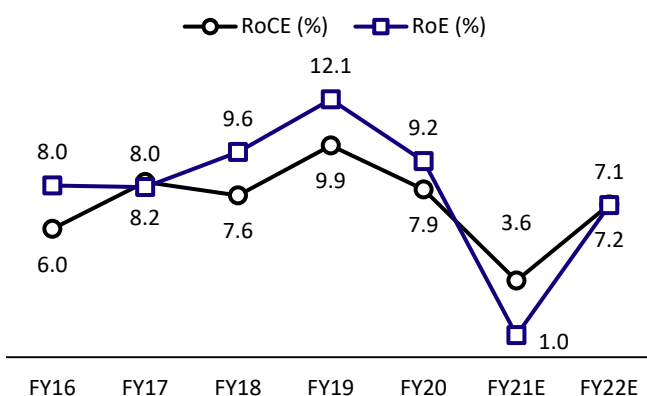
Source: Company, MOFSL

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	11,273	20,255
Change (%)	14.1	7.6	2.5	-11.2	22.3	-2.0	-41.9	79.7
Total Expenditure	8,914	9,926	9,777	8,424	9,884	9,740	5,749	9,945
% of Sales	53.9	55.8	53.6	52.0	49.9	50.2	51.0	49.1
EBITDA	7,620	7,869	8,469	7,774	9,932	9,671	5,524	10,310
Margin (%)	46.1	44.2	46.4	48.0	50.1	49.8	49.0	50.9
Depreciation	1,681	1,773	1,953	1,983	2,042	2,076	2,088	2,196
EBIT	5,939	6,096	6,516	5,791	7,889	7,595	3,437	8,114
Int. and Finance Charges	3,956	4,425	4,230	3,476	3,506	3,478	3,678	3,764
Other Income	312	302	472	556	851	585	605	636
PBT bef. EO Exp.	2,295	1,974	2,758	2,871	5,235	4,702	364	4,986
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	364	4,986
Total Tax	493	767	858	758	1,099	1,221	93	1,271
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	-169	203
Reported PAT	354	1,289	1,679	2,422	4,210	3,347	440	3,511
Adjusted PAT	952	1,489	1,679	2,422	3,822	3,297	440	3,511
Change (%)	-22.5	56.5	12.8	44.2	57.8	-13.7	-86.6	697.1
Margin (%)	5.8	8.4	9.2	15.0	19.3	17.0	3.9	17.3

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	343	343
Total Reserves	16,447	19,967	21,566	28,213	34,435	36,777	47,544	50,323
Net Worth	16,737	20,273	21,872	28,519	34,741	37,084	47,887	50,666
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	1,01,666	1,04,945
Gross Block	46,363	50,371	50,171	63,318	73,788	75,168	76,668	80,168
Less: Accum. Deprn.	5,061	6,824	8,139	10,356	12,277	14,353	16,441	18,636
Net Fixed Assets	41,302	43,547	42,031	52,962	61,511	60,815	60,227	61,531
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	15,897	15,897
Curr. Assets, Loans&Adv.	19,928	24,104	16,449	13,589	18,133	19,096	12,605	18,812
Inventory	11,783	13,240	9,455	6,615	8,987	8,161	4,817	8,333
Account Receivables	2,192	2,786	1,470	1,292	1,955	2,017	1,171	2,105
Cash and Bank Balance	920	1,630	812	406	1,920	1,407	2,896	2,297
Loans and Advances	5,032	6,448	4,711	5,276	5,271	7,511	3,720	6,077
Curr. Liability & Prov.	9,441	10,282	9,529	15,126	11,744	14,499	9,116	17,349
Account Payables	1,462	1,616	1,254	6,584	1,700	1,117	659	1,141
Other Current Liabilities	7,217	8,115	7,431	7,498	9,394	12,621	7,893	15,195
Provisions	762	551	843	1,045	651	761	564	1,013
Net Current Assets	10,487	13,822	6,920	-1,538	6,388	4,597	3,488	1,463
Appl. of Funds	55,925	62,861	59,672	68,453	88,025	90,362	1,01,666	1,04,945

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	2.9	22.9
Cash EPS	17.2	21.3	23.7	28.7	38.2	35.0	16.5	37.2
BV/Share	109.1	132.1	142.5	185.8	226.4	241.6	312.0	330.2
DPS	2.1	3.9	0.4	2.4	2.6	3.0	3.5	4.0
Payout (%)	108.4	56.4	4.9	18.3	11.4	16.5	144.6	20.9
Valuation (x)								
P/E	100.1	64.0	56.8	39.4	24.9	28.9	216.4	27.1
Cash P/E	36.2	29.2	26.2	21.6	16.3	17.7	37.7	16.7
P/BV	5.7	4.7	4.4	3.3	2.7	2.6	2.0	1.9
EV/Sales	7.8	7.4	7.2	8.1	6.9	7.0	11.9	6.7
EV/EBITDA	16.9	16.8	15.4	16.9	13.7	14.0	24.3	13.1
Dividend Yield (%)	0.3	0.6	0.1	0.4	0.4	0.5	0.6	0.6
Return Ratios (%)								
RoE	5.6	8.0	8.0	9.6	12.1	9.2	1.0	7.1
RoCE	7.8	6.0	8.2	7.6	9.9	7.9	3.6	7.2
RoIC	7.4	5.8	8.2	8.0	10.2	8.2	3.9	9.4
Working Capital Ratios								
Asset Turnover (x)	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.2
Inventory (Days)	260	272	189	149	166	153	156	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	0.9	2.2
Net Debt/Equity	2.0	1.8	1.6	1.3	1.2	1.1	0.8	0.8

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	364	4,986
Depreciation	1,681	1,773	1,953	1,983	2,042	2,076	2,088	2,196
Interest & Finance Charges	3,777	4,237	3,909	3,309	3,134	2,893	3,072	3,129
Direct Taxes Paid	-891	-1,352	-438	-208	-804	-1,221	-93	-1,271
(Inc)/Dec in WC	-1,419	-1,940	5,853	7,417	-7,175	1,279	2,598	1,426
CF from Operations	4,505	4,304	14,035	15,374	2,913	9,729	8,029	10,465
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	8,029	10,465
(Inc)/Dec in FA	-1,074	-3,856	-1,847	-15,013	-14,606	-7,758	-4,500	-7,500
Free Cash Flow	4,562	1,116	12,291	129	-12,529	1,971	3,529	2,965
(Pur)/Sale of Investments	-1,326	96	-2,429	-3,412	1,508	1,553	-10,000	0
Others	1,379	205	349	103	2,009	586	605	636
CF from Investments	-1,021	-3,555	-3,927	-18,322	-11,090	-5,619	-13,895	-6,864
Issue of Shares	30	2,760	22	25	49	0	11,000	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	-3,678	-3,764
Dividend Paid	-372	-727	-83	-442	-480	-554	-637	-732
Others	0	0	0	6,298	8,986	770	169	-203
CF from Fin. Activity	-4,546	-707	-11,029	2,774	10,527	-4,623	7,354	-4,200
Inc/Dec of Cash	69	710	-818	-406	1,514	-513	1,489	-599
Opening Balance	851	920	1,630	812	406	1,920	1,407	2,896
Closing Balance	920	1,630	812	406	1,920	1,407	2,896	2,297

NOTES

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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