

Consumption recovery faster than anticipated...

The key highlight for Phoenix Mills (PML) was consumption recovery at retail malls with festivities. During Q3FY21, total consumption was at ₹ 1,380 crore (up 195% QoQ; at ~67% of Q3FY20) and the improving trend continued in January 2021 – growing 5% MoM to ₹ 530 crore (~83% of January 2020). Reported revenues de-grew ~34% YoY to ₹ 337.8 crore, with core portfolio (commercial + retail + hospitality) revenues down ~39% YoY to ₹ 282.3 crore, dragged by weak hospitality performance (down 74% YoY). Reported EBITDA margin was down 366 bps YoY to 47%.

Mall recovery better than anticipated

PML rental income in Q3FY21 at ₹ 176.1 crore (~67% of Q3FY20) was higher than H1FY21 rental (at ~₹ 170.5 crore at ~33% of H1FY20). Additionally, retail collections saw a sharp improvement to ₹ 260 crore, ₹ 390 crore in Q3FY21, 9MFY21, respectively. This was largely driven by overall consumption improvement. Going forward, the management expects consumption to reach 85-90% by FY21-end and fully normalised levels (along with contractual escalations) in FY22E. We expect ~45% decline on like to like basis in rental revenues (ex-CAM charges) in FY21 vs. earlier expectations of 50% decline. Over the medium term, we expect retail rental income to grow at a CAGR of ~13.5% to ₹ 1923 crore in FY20-25E.

Kolkata acquisition to expand overall retail offering

The company recently acquired 7.5 acres of land in Alipore, Kolkata for total consideration of ₹ 300 crore to be used for retail-led mixed used consumption. The land parcel has retail development potential of 1 mn sq ft in phase-1 (construction cost of ~₹ 550 crore), which is likely to be operationalised by FY25. Additionally, PML is looking to develop balance 0.2 mn sq ft land parcel into office space in phase-2 (cost: ₹ 125 crore). The management indicated average rental of large comparable retail format is ~₹ 120-150/ month. PML is looking to attain ~15-16% yield on cost in first few years of operations and 20% yield, thereafter, in the project.

Valuation & Outlook

PML remains a quasi-play on India's consumption story, given the quality of assets, healthy balance sheet & strategic expansion plans. The QIP fund raise has boosted the liquidity & growth ammunition and rental asset expansion plan in Kolkata is testimony. With only five to six major retail mall developers currently in India, and given its USP of operating large format properties efficiently, PML is as a superior player in the medium to long term. We maintain **BUY** rating with SoTP based target price of ₹ 950 (₹ 795, earlier).



Particulars

Particular	Amount (₹ crore)
Market Capitalization	14,003.4
Total Debt	4,573.2
Cash and Investments	140.7
EV	18,435.9
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 13.5% to ₹ 1923 crore in FY20-25E
- Maintain BUY with revised target price of ₹ 950/share

Key risks to our call

- Sustained slowdown in commercial leasing
- Inability to lease out new properties.

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales (₹ crore)	1,981.6	1,941.1	1,043.7	2,104.0	2,405.9	7.4%
EBITDA (₹ crore)	993.2	967.1	491.7	1,066.9	1,256.1	9.1%
EBITDA margin (%)	50.1	49.8	47.1	50.7	52.2	
Adj. Net Profit (₹ crore)	372.9	327.0	21.0	381.8	466.0	12.5%
Adj. EPS (₹)	24.4	21.4	1.2	22.2	27.1	
P/E (x)	29.7	37.3	665.3	36.7	30.1	
EV/EBITDA (x)	17.9	18.9	35.3	16.4	13.8	
Price / Book (x)	3.6	3.4	2.9	2.7	2.5	
RoCE (%)	9.6	8.4	3.2	7.8	8.5	
RoE (%)	10.7	8.8	0.4	7.4	8.4	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (Chg %)	Q2FY21	QoQ (Chg %)	Comments
Income from Operation	337.8	308.6	511.8	-34.0	214.9	57.2	The revenue beat was obetter than expected consumption uptick in Q3 in the retail segment. On the core portfolio (commercial + retail + hospitality) front, revenues declined by ~39% YoY to ₹ 282.3 crore, with ~74% decline in hospitality revenues and 30.77% decline in Retail revenues
Other Income	15.1	20.0	13.3	13.8	14.4	4.6	
Total raw material Expense	27.5	19.2	32.3	-14.7	19.2	43.0	
Employee cost	37.4	35.0	52.1	-28.2	22.8	64.4	
Other expenditure	84.4	85.0	129.0	-34.6	60.1	40.4	
EBITDA	158.8	148.3	259.3	-38.8	91.7	73.2	
EBITDA Margin (%)	47.0	48.0	50.7	-366 bps	42.7	435 bps	
Depreciation	53.1	54.1	51.4	3.2	54.1	-2.0	
Interest	85.7	95.0	88.9	-3.6	94.4	-9.3	
PBT	35.2	19.1	132.3	-73.4	-42.5	-182.8	
Taxes	-24.9	4.8	35.8	-169.8	-2.5	902.8	MAT credit balances of certain subsidiaries which were written off during the previous financial year on account of the decision to opt for the new income tax regime at that time, have now been reinstated. This resulted in negative tax expenses on net basis
Reported PAT	65.4	20.4	91.9	-28.8	-35.9	-282.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY19	FY20	FY21E			FY22E			FY23E		Comments
(₹ Crore)			Old	New	% Change	Old	New	% Change			
Revenue	1981.6	1941.1	1194.9	1043.7	-12.7	2,083.7	2104.0	1.0	2405.9		Realigned numbers post 9M results
EBITDA	993.2	967.1	491.4	491.7	0.1	1,069.7	1066.9	-0.3	1256.1		
EBITDA Margin (%)	50.1	49.8	41.1	47.1	599 bps	51.3	49.5	-183 bps	54.9		
PAT	421.0	334.7	13.7	21.0	NM	399.2	381.8	-4.4	466.0		
EPS (₹)	27.5	21.8	0.8	1.2	NM	23.2	22.2	-4.3	27.1		

Source: Company, ICICI Direct Research

Conference call Highlights

- Retail/Commercial Properties KPIs:** During Q3FY21, total consumption was at ₹ 1,380 crore (up 195% QoQ; at ~67% of Q3 FY20) and the improving trend continued in January 2021 – growing 5% MoM (to ₹ 530 crore; ~83% of January 2020). Going forward, the management expects consumption to reach 85-90% by FY21-end. Additionally, in line with consumption, retail collections witnessed sharp improvement and were at ₹ 260 crore, ₹ 390 crore in Q3FY21, 9MFY21, respectively. As of now, the company has ~7 mn sq ft of gross leasable area (GLA) across nine operational retail malls in six cities. With the strong pipeline in malls including Phoenix Millennium (Wakad), Phoenix Citadel (Indore), Phoenix Mall of Asia (Bangalore) and Palladium (Ahmedabad), total of ~13 mn sq ft mall GLA is expected to be operational by FY25. In the commercial business, its office portfolio was least impacted and commercial revenues were 93% on YoY basis. Among major assets, 95% of the Fountain head Pune tower 1 are leased and operational. For tower 2, the company received occupational certificate in October 2020, and has leased out 50,000 sq ft area till now at an average rate of ₹ 71 per sq ft. Fountainhead tower 3 is under construction and likely to get completed over the next two months
- Residential business:** The residential segment reported revenues of ₹ 55.6 crore (up 16% YoY) as the company witnessed healthy demand of ready to move in inventory and reconfiguration of Kessaku into smaller units. Collections were at ₹ 36 crore and the company has sold inventory worth ₹ 55.6 crore in Q3FY21. Additional sales of ₹ 39.7 crore was completed in 9MFY21 for which registration is pending. As on January 2021-end, the company has achieved sales of ₹ 175 crore and collections were at ₹ 120 crore
- Hospitality portfolio:** Hospitality business revenues fell 74.3% YoY to ₹ 27.8 crore in Q3FY21. St Regis occupancy remained low at ~35% in Q3FY21 (vis-à-vis 84% in Q3FY20). However, the company has undertaken various cost rationalisation exercises during the quarter, which translated into profit at the operating level. Going forward, the management expects operating performance to remain subdued until business and leisure travels normalizes. In Agra Courtyard Marriot, operations were shut since March and reopened on August 8, 2020. Post opening, occupancy in Courtyard during Q3 was at 38%
- Acquisition:** The company, via its wholly owned subsidiary viz. Mindstone Mall Developers, has acquired 7.5 acres of land in Alipore, Kolkata for total consideration of ₹ 300 crore to be used for retail-led mixed used consumption. As per the management, the land parcel has retail development potential of 1 mn sq ft in phase-1 (construction cost of ~₹ 550 crore), which is likely to be operationalised by FY25. Additionally, the company is looking to develop balance 0.2 mn sq ft land parcel into office space in phase-2 (cost: ₹ 125 crore)
- Agreement with GIC:** Phoenix Mills has entered into an agreement with Singapore's sovereign wealth fund GIC to set up a mall development platform in India. Initially, the fund will pick up ~ 26% equity in certain retail and office assets portfolio owned by Phoenix Mills and some of its subsidiaries. Further, both entities may mutually agree to further increase GIC's stake to up to 35% within a 12-month period from the closing of the proposed transaction. Currently, due-diligence process is at an advanced stage and is expected to be done within a month

- **Debt and capex:** Gross debt was at ₹ 4,412 crore, down by ₹ 230 crore QoQ. Effective net debt of PML was stable at ~₹ 2700 crore. Average cost of borrowing has reduced to 8.46%, 8.31% in Q3FY21, January 2021, respectively, from 8.88% in Q2FY21 and is likely to decline further as downward repricing is expected, going forward. Additionally, the company guided for capex of ₹ 320 crore in FY21, of which ₹ 240 crore has been spent in 9MFY21 (₹ 100 crore in Q3FY21)

Company Analysis

Exhibit 3: Retail income trend

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY Growth (%)	QoQ Growth (%)
Rental Income (₹ crore)							
HSP & Palladium	94.6	78.0	34.4	33.4	62.1	(34.4)	85.9
PMC Mumbai	33.9	28.3	8.7	8.7	18.6	(45.1)	113.8
PMC Bangalore	40.0	30.7	12.0	12.8	23.8	(40.5)	85.9
PMC & Palladium Chennai*	48.2	38.5	13.4	7.4	23.6	(51.0)	218.9
PMC Pune	45.8	35.0	12.5	13.6	25.0	(45.4)	83.8
Phoenix Palladio				3.7	12.3	NA	232.4
Phoenix United Lucknow	9.0	7.2	2.2	3.7	5.9	(34.4)	59.5
Phoenix United Bareilly	6.2	5.0	1.2	2.8	4.8	(22.6)	71.4

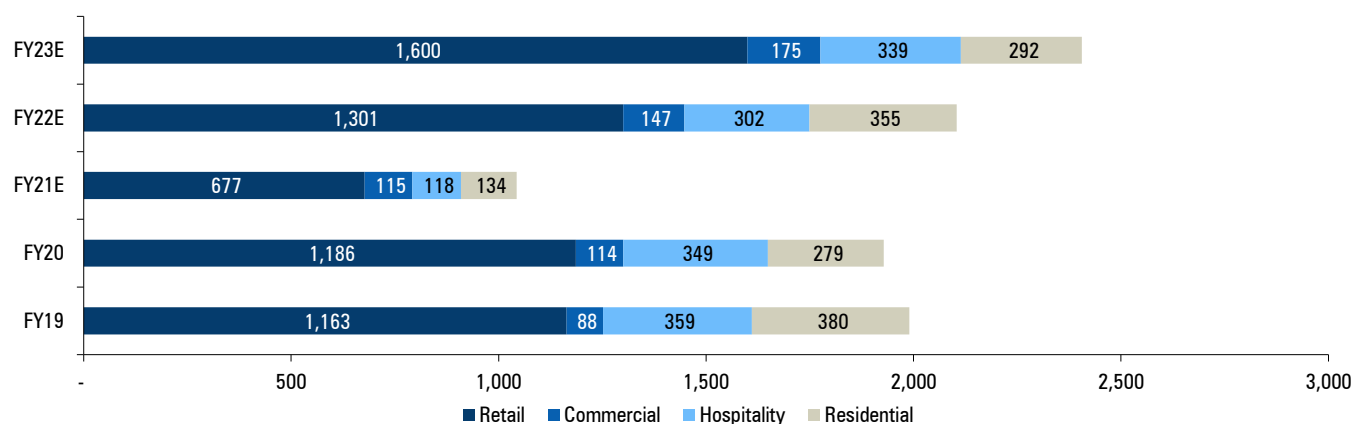
Source: Company, ICICI Direct Research

Exhibit 4: Commercial portfolio

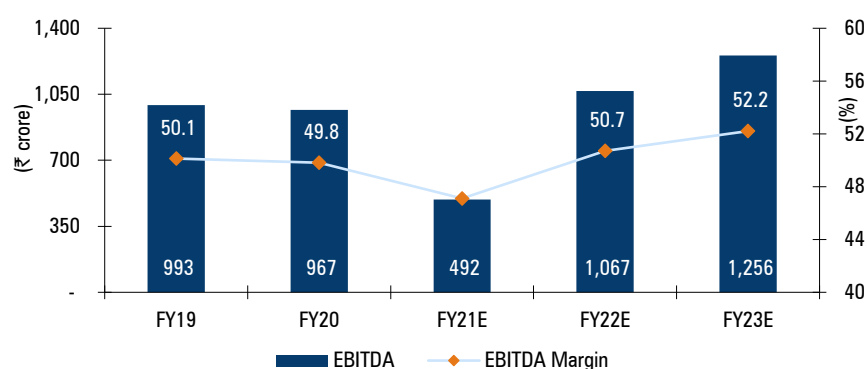
Office	Location	Total Area (msf)	Area Sold(msf)	Net Leasable Area (msf)	Area Leased (msf)	Average Rate (₹/sq ft.)
Operational						
Phoenix Paragon Plaza	Mumbai	0.43	0.12	0.31	0.16	102
The Centrium	Mumbai	0.28	0.16	0.12	0.08	NA
Art Guild House	Mumbai	0.80	0.17	0.63	0.54	88
Phoenix House	Mumbai	0.09	-	0.09	0.08	NA
Fountainhead - Tower 1	Pune	0.17	-	0.17	0.16	88
Fountainhead - Tower 2	Pune	0.25	-	0.25	0.05	71
Total Operational		2.04	0.46	1.58	1.07	

Source: Company, ICICI Direct Research

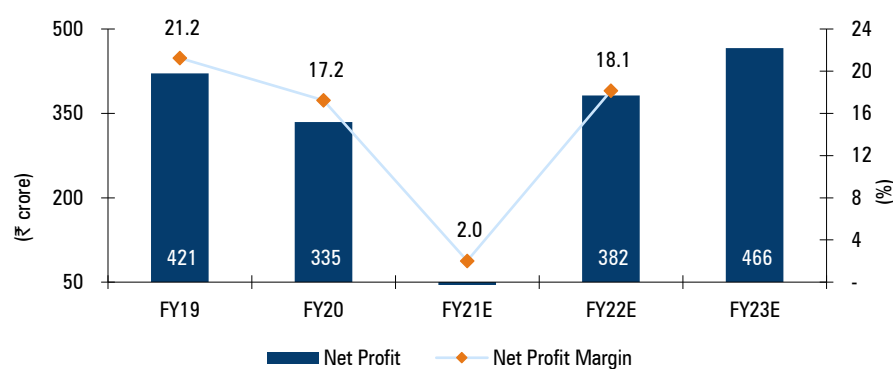
Financial story through charts

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

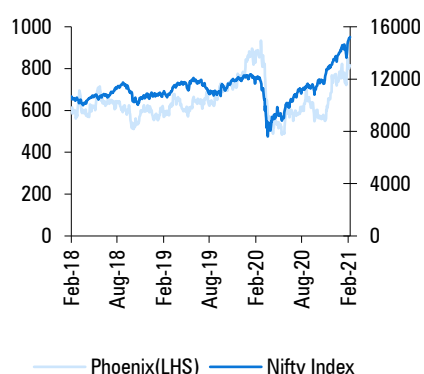
Valuation & Outlook

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Exhibit 8: Valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Value (₹ crore)	Value/ share (₹/ share)
Retail		Leasable area (msf)				
Retail Operational	6.8	13,991.6	2,927.4	11,064.2	9013	525
Retail under construction	3.6	2616	26	2590	1315	77
Retail Total	10.4	16,607	2,954	13,654	10,327	602
Commercial		Leasable area (msf)				
Commercial Operational	1.0	1608	112	1496	1496	87
Commercial under construction	1.8	1297	0	1297	1190	69
Commercial Total	2.8	2,905	112	2,793	2,686	156
Hospitality		No of keys				
Hospitality Total	588	2,381	1,186	1,195	938	55
Residential		Saleable area (msf)				
Residential Total	3.7	1,084	-	1,084	855	50
Total	17.0	22,977		18,726	14,807	862
Add: Cash & QIP proceeds					1,560	91
Target price						953
Rounded off TP						950

Source: Company, ICICI Direct Research

Exhibit 9: Price Performance


Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement ₹ crore

₹ crore	FY20	FY21E	FY22E	FY23E
Net Sales	1,941.1	1,043.7	2,104.0	2,405.9
Other Income	58.5	69.3	72.8	76.4
Total revenues	1,999.6	1,113.0	2,176.8	2,482.3
Raw Material Expenses	195.9	105.3	212.3	242.8
Employee Cost	165.5	99.1	168.3	192.5
Other Expenditure	612.6	347.5	656.5	714.5
Total Operating Expenditure	974.0	552.0	1,037.1	1,149.7
EBITDA	967.1	491.7	1,066.9	1,256.1
Interest	347.8	351.2	345.1	410.0
Depreciation	207.6	214.0	260.7	350.8
PBT	478.0	(4.3)	533.8	571.7
Tax	122.1	(1.1)	133.4	142.9
Reported PAT	334.7	21.0	381.8	466.0
EPS	21.9	1.2	22.2	27.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

₹ crore	FY20	FY21E	FY22E	FY23E
Profit after Tax	334.7	21.0	381.8	466.0
Depreciation	207.6	214.0	260.7	350.8
Interest paid	347.8	351.2	345.1	410.0
Cash Flow before wc changes	1,033.4	561.0	1,139.7	1,332.6
Net Increase in Current Assets	7.7	696.7	(691.3)	(270.9)
Net Increase in Current Liabilities	(255.4)	(424.6)	488.3	127.5
Net cash flow from op. activities	663.7	834.1	803.2	1,046.2
Purchase of Fixed Assets	(781.9)	(647.6)	(707.5)	(336.7)
(Purchase)/Sale of Investments	44.2	-	50.0	-
Net cash flow from inv. activities	(705.7)	(525.8)	(576.2)	(302.1)
Proceeds from Long Term Borrowing	329.7	(40.6)	4.1	(149.2)
Interest paid	(347.8)	(351.2)	(345.1)	(410.0)
Net cash flow from fin. activities	(15.1)	668.7	(324.6)	(674.1)
Net Cash flow	(57.1)	977.1	(97.6)	70.0
Opening Cash	192.0	140.7	1,117.8	1,020.2
Closing Cash	140.7	1,117.8	1,020.2	1,090.2

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore

₹ crore	FY20	FY21E	FY22E	FY23E
Equity Capital	30.7	34.3	34.3	34.3
Reserves & Surplus	3,667.7	4,745.7	5,143.9	5,494.9
Networth	3,698.4	4,780.0	5,178.2	5,529.3
Total Debt	4,573.2	4,532.6	4,536.7	4,387.6
Other financial liabilities	203.3	114.4	230.6	263.7
Deferred Tax Liability	2.8	2.8	2.8	2.8
Source of Funds	9,756	10,691	11,263	11,495
Gross Block	7,514.8	7,644.6	8,690.9	11,694.8
Less: Accumulated Dep	1,435.3	1,649.4	1,910.1	2,260.9
Net Block	6,079.5	5,995.3	6,780.9	9,433.9
Capital WIP	1,534.1	2,051.9	1,713.1	(954.1)
Total Fixed Assets	7,613.6	8,047.2	8,494.0	8,479.8
Investments	428.0	428.0	378.0	378.0
Inventories	816.1	428.9	807.0	988.7
Trade Receivables	201.7	102.9	207.5	237.3
Loans & Advances	9.7	5.2	10.5	12.0
Cash & Bank Balances	140.7	1,117.8	1,020.2	1,090.2
Other Current Assets	406.4	200.2	403.5	461.4
Total Current Assets	1,736.3	1,901.7	2,448.8	2,789.7
Trade Payable	110.3	59.3	119.6	136.8
Provisions	76.1	38.0	65.2	61.3
Other Current Liabilities	526.9	280.2	564.9	646.0
Total Current Liabilities	713.3	377.6	749.7	844.1
Net Current Assets	1,023.0	1,524.1	1,699.1	1,945.6
Application of Funds	9,756	10,691	11,263	11,495

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

₹ crore	FY20	FY21E	FY22E	FY23E
Per Share Data				
Reported EPS	21.9	1.2	22.2	27.1
Cash EPS	35.4	13.7	37.4	47.6
BVPS	241.5	278.4	301.6	322.1
Operating Ratios				
EBITDA / Net Sales	49.8	47.1	50.7	52.2
PAT / Net Sales	16.8	2.0	18.1	19.4
Return Ratios				
RoE	8.8	0.4	7.4	8.4
RoCE	8.4	3.2	7.8	8.5
RoIC	10.8	4.2	10.5	8.6
Valuation Ratios				
EV / EBITDA	18.9	35.3	16.4	13.8
P/E	37.3	665.3	36.7	30.1
EV / Net Sales	9.4	16.6	8.3	7.2
Market Cap / Sales	7.2	13.4	6.7	5.8
Price to Book Value	3.4	2.9	2.7	2.5
Turnover Ratios				
Asset turnover	0.2	0.1	0.2	0.2
Gross Block Turnover	0.2	0.1	0.2	0.2
Solvency Ratios				
Net Debt / Equity	1.2	0.7	0.7	0.6
Current Ratio	2.0	2.0	1.9	2.0
Quick Ratio	0.9	0.8	0.8	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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