

Strong consumption recovery...

About the stock: Phoenix Mills (PML) is a leading retail mall developers and operators in India. It is into retail-led, mixed-use properties and has developed 17.5+ mn sq ft of retail, commercial, hospitality, and residential asset class.

- PML has an operational retail area of ~7 mn sq ft spread over nine operational malls and developing another five malls with ~6 mn sq ft of retail space. It has a GLA of 1.6 mn sq ft in commercial segment. It plans to add 4.6 mn sq ft of commercial office space

Q2FY22 Results: PML reported a strong operating performance.

- Reported revenues grew ~72.8% YoY to ₹ 371.3 crore. Retail revenues grew ~71.6% YoY at ₹ 233.5 crore while hospitality revenues were up ~275% YoY at ₹ 34.5 crore. **While Q2 consumption was at ~74% of pre-Covid, October 2021 consumption across retail portfolio was at ~₹ 660 crore, at 90% of October 2019.** Commercial remained a resilient segment, which witnessed revenues growth of ~70% YoY at ₹ 42.1 crore
- EBITDA margins were up 750 bps YoY to 50.2%. The company reported a PAT of ₹ 59.5 crore, vs. losses in base quarter

What should investors do? PML's share price has grown 173% over the past five years (from ~₹ 372 in October 2016 to ~₹ 1011 levels in October 2021).

- We maintain our BUY rating on the company

Target Price and Valuation: We value PML at ₹ 1200/share.

Key triggers for future price performance:

- Focused on core competence in development and operation of retail malls; under-development retail GLA of ~6 mn sq ft to aid growth. Over the medium term, we expect retail rental income to grow at a CAGR of ~13.5% to ₹ 1913 crore in FY20-25E
- Decline in Covid-19 cases and re-opening of economies to fully operationalise its mall and hospitality asset; rentals and ARR to improve
- Healthy balance sheet and strategic expansion plans to add 1 msf of retail area annually

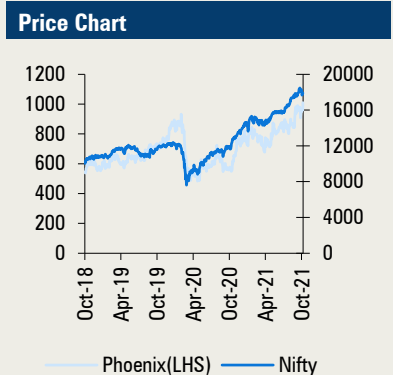
Alternate Stock Idea: Besides PML, we like Mahindra Lifespace in real estate space.

- A play on residential expanding real estate portfolio
- BUY with a target price of ₹ 335



| Particulars | |
|-----------------------|------------------|
| Particular | Amount (₹ crore) |
| Market Capitalization | 17,383.7 |
| Total Debt (FY21) | 4,062.6 |
| Cash (FY21) | 513.9 |
| EV | 20,932.4 |
| 52 week H/L (₹) | 1065 / 549 |
| Equity capital | 34.4 |
| Face value | ₹ 2 |

| Shareholding pattern | | | | |
|----------------------|--------|--------|--------|--------|
| | Dec-20 | Mar-21 | Jun-21 | Sep-21 |
| Promoters | 45.5 | 45.5 | 45.5 | 45.5 |
| DII | 16.8 | 16.0 | 15.7 | 17.5 |
| FII | 33.5 | 34.3 | 34.4 | 32.3 |
| Other | 4.2 | 4.2 | 4.3 | 4.7 |



Key Risks

Key Risk: (i) Extended tail of pandemic; (ii) Sustained slowdown in commercial leasing

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| Key Financial Summary | | | | | | | |
|---------------------------|---------|---------|---------|---------------------|---------|---------|----------------------|
| (₹ Crore) | FY19 | FY20 | FY21 | 5 yr CAGR (FY16-21) | FY22E | FY23E | 2 yr CAGR (FY21-23E) |
| Net Sales (₹ crore) | 1,981.6 | 1,941.1 | 1,073.3 | -10% | 1,596.0 | 2,383.8 | 49% |
| EBITDA (₹ crore) | 993.2 | 967.1 | 494.2 | -9% | 754.1 | 1,259.8 | 60% |
| EBITDA margin (%) | 50.1 | 49.8 | 46.0 | | 47.2 | 52.8 | |
| Adj. Net Profit (₹ crore) | 372.9 | 327.0 | 52.6 | -21% | 228.2 | 511.1 | 212% |
| Adj. EPS (₹) | 24.4 | 21.4 | 3.1 | | 13.3 | 29.7 | |
| P/E (x) | 36.8 | 46.2 | 330.4 | | 76.2 | 34.0 | |
| EV/EBITDA (x) | 21.3 | 22.1 | 42.2 | | 28.5 | 17.7 | |
| Price / Book (x) | 4.5 | 4.2 | 3.6 | | 3.4 | 3.1 | |
| RoCE (%) | 9.6 | 8.6 | 3.6 | | 5.6 | 8.8 | |
| RoE (%) | 10.7 | 8.8 | 1.1 | | 4.5 | 9.3 | |

Key business highlight and outlook

- Retail/Commercial Properties KPIs:** Consumption at ₹ 1,012.4 crore, was up (114.3% YoY; 291% QoQ) with a) lifting of majority of local restrictions by mid-August 2021, b) resumption in F&B, and c) pick-up on account of festive season. Additionally, consumption has improved during October' 2021 and reached ~90% of October 2019 level (to ₹ 661 crore). In line with the consumption, retail collections also improved and the company collected ~₹ 104 crore during October 2021 (vs. ₹ 133 crore collected during Q2FY22). Going forward, the management seems optimistic with respect to the improving consumption/collection and expects trend to follow during H2FY22 backed by a) improving demand, b) more categories and business allowed to operate, and c) more footfalls amid ongoing festive season. In the commercial business, its office portfolio was least impacted and commercial revenues improved to ₹ 42.1 crore. Collection efficiency was at ~94%. Among major assets, 0.16 mn sq ft of the Fountain head Pune tower 1 (total area: 0.17 mn sq ft) are leased and operational. For recently operational tower 2 (total area: 0.25 mn sq ft) building, 0.1 mn sq ft area has been leased with tenants started moving in from May 2021 onwards. Construction of Fountainhead tower 3 (total area: 0.41 mn sq ft) is completed and awaiting occupancy certificate (OC)
- Residential business:** The residential segment reported revenues of ₹ 61.2 crore during Q2FY22 (up 37% YoY) as the company witnessed strong demand for ready to move in inventory, faster conversions, and reconfiguration of Kessaku into smaller units. Collections were healthy at ₹ 78.7 crore. During H1FY22, the company achieved sales of ₹ 98 crore and collections were at ₹ 114.9 crore. Going forward, the company expects healthy demand to continue with faster conversions backed by effective digital marketing efforts and various schemes and offers
- Hospitality portfolio:** Hospitality business revenues improved 3.2x YoY to ₹ 34.5 crore during Q2FY22 with uptick in social events and revival in corporate travels. St Regis average occupancy jumped to 57% during Q2FY22, 77% in October 2021 (vs. 24% during Q2FY21). Additionally, improved revenue and various cost rationalization exercises (in recent times) has translated into 15% EBITDA margin (vs. loss at the operating level during Q2FY21). Going forward, the management expects operating performance to improve further with normalisation in economic activities and continued momentum in social and corporate events. Additionally, capitalisation on several banquets projects at St Regis is likely to attract significant traction in the coming months. In Agra Courtyard Marriot, average occupancy witnessed significant improvement to 56% during Q2FY22, 60% in October 2021 (vs 7.7% during Q2FY21)
- Rental negotiations:** With business activities picking up at malls, the company has recently managed to re-negotiate the rental terms with their retailer partners. For malls outside Maharashtra, any waivers/discount are likely to be only for the limited period of H1FY22. Accordingly, the company has built ~55-56% of overall contractual rentals during H1FY22. For malls within Maharashtra, any waivers/discount are likely to be only till October 2021. Accordingly, the company has built ~35-40% of overall contractual rentals during H1FY22, which is likely to move up to 100% from November 2021. Going forward, the management on a conservative basis expects its rental billing during Q4FY22 to reach 100% of Q4FY20 levels, albeit with improved consumption, it is likely to be higher
- Lease status in under-construction malls:** a) Phoenix Citadel (Indore): currently have 50% pre-lease commitments; expects to reach ~80% by FY22-end, b) Phoenix Marketcity (Bangalore): have 40% lease commitment currently; likely to get 70% pre-leased by FY22-end, c) Phoenix Millennium (Wakad): 35% pre-leased at present; likely to reach 60% by FY22-end, and d) Palladium (Ahmedabad): 70% pre-leased currently and likely to reach ~85% by FY22-end.
- Debt and Capex:** Gross debt as on September 30, 2021 was at ₹ 4,299 crore (down ~₹ 58 crore QoQ). Effective net debt was at ₹ 2,979 crore. Average cost of borrowing has reduced to 7.8% in September 2021 and is likely to decline further as downward repricing is expected. Additionally, capex was ₹ 230 crore in H1 FY22 mainly towards the under-construction malls, and another ₹ 20 crore towards construction of Fountainhead tower-3. With ramp-up in the construction activities, the management expects capex on quarterly basis to be at ~₹ 170-180 crore over the next couple of years, FSI/approval costs of ~₹ 350 crore for Project rise has been paid and construction will begin by Q3 end.

Exhibit 1: Variance Analysis

| | Q2FY22 | Q2FY22E | Q2FY21 | YoY (Chg %) | Q1FY22 | QoQ (Chg %) | Comments |
|-----------------------------|--------|---------|--------|-------------|--------|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Income from Operation | 371.3 | 260.0 | 214.9 | 72.8 | 204.3 | 81.8 | Retail revenues grew by ~71.6% YoY at ₹ 233.5 crore, while hospitality revenues were up ~275% YoY at ₹ 34.5 crore. While Q2 consumption was at ~74% of pre-covid, Oct 2021 consumption across retail portfolio stands at ~₹ 660 crore, at 90% of Oct 2019. Commercial remained resilient segment which witnessed revenues growth of ~70% YoY at ₹ 42.1 crore |
| Other Income | 15.9 | 14.0 | 14.4 | 10.1 | 12.1 | 31.5 | |
| Total raw material Expense: | 30.0 | 19.2 | 19.2 | 56.0 | 17.2 | 74.3 | |
| Employee cost | 41.8 | 33.0 | 22.8 | 83.5 | 33.0 | 26.5 | |
| Other expenditure | 86.7 | 72.0 | 60.1 | 44.1 | 61.0 | 42.2 | |
| EBITDA | 186.3 | 111.8 | 91.7 | 103.2 | 76.1 | 144.7 | |
| EBITDA Margin (%) | 50.2 | 43.0 | 42.7 | 751 bps | 37.3 | 1290 bps | |
| Depreciation | 47.6 | 54.1 | 54.1 | -12.0 | 48.1 | -0.9 | |
| Interest | 75.2 | 75.0 | 94.4 | -20.3 | 72.3 | 4.1 | |
| PBT | 79.3 | -3.4 | -42.5 | -286.8 | -32.2 | -346.6 | |
| Taxes | 16.1 | 0.0 | -2.5 | -749.1 | 2.6 | 517.6 | |
| Reported PAT | 59.5 | 3.6 | -35.9 | -265.7 | -26.2 | -327.0 | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| (₹ Crore) | FY20 | FY21 | FY22E | | | FY23E | | | Comments |
|-------------------|--------|--------|--------|--------|----------|---------|--------|----------|----------|
| | | | Old | New | % Change | Old | New | % Change | |
| Revenue | 1941.1 | 1073.3 | 1693.4 | 1596.0 | -5.7 | 2,530.0 | 2383.8 | -5.8 | |
| EBITDA | 967.1 | 494.2 | 861.4 | 754.1 | -12.5 | 1,319.7 | 1259.8 | -4.5 | |
| EBITDA Margin (%) | 49.8 | 46.0 | 50.9 | 47.2 | -362 bps | 52.2 | 52.8 | 69 bps | |
| PAT | 334.7 | 52.6 | 244.8 | 228.2 | -6.8 | 576.8 | 511.1 | -11.4 | |
| EPS (₹) | 21.8 | 3.1 | 14.2 | 13.3 | -6.8 | 33.6 | 29.7 | -11.4 | |

Source: Company, ICICI Direct Research

Company Analysis

Exhibit 3: Retail income trend

| | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | YoY Growth (%) | QoQ Growth (%) |
|--------------------------------|--------|--------|--------|--------|--------|----------------|----------------|
| Rental Income (₹ crore) | | | | | | | |
| HSP & Palladium | 33.4 | 62.1 | 66.2 | 29.3 | 46.6 | 39.5 | 59.0 |
| PMC Mumbai | 8.7 | 18.6 | 25.5 | 8.8 | 17.7 | 103.4 | 101.1 |
| PMC Bangalore | 12.8 | 23.8 | 29.3 | 11.2 | 35.1 | 174.2 | 213.4 |
| PMC & Palladium Chennai* | 7.4 | 23.6 | 33.8 | 14.9 | 39.3 | 431.1 | 163.8 |
| PMC Pune | 13.6 | 25.0 | 33.6 | 10.9 | 22.1 | 62.5 | 102.8 |
| Phoenix Palladio | 3.7 | 12.3 | 16.1 | 7.2 | 24.5 | 562.2 | 240.3 |
| Phoenix United Lucknow | 3.7 | 5.9 | 6.4 | 2.8 | 7.4 | 100.0 | 164.3 |
| Phoenix United Bareilly | 2.8 | 4.8 | 5.7 | 1.9 | 5.8 | 107.1 | 205.3 |

Source: Company, ICICI Direct Research

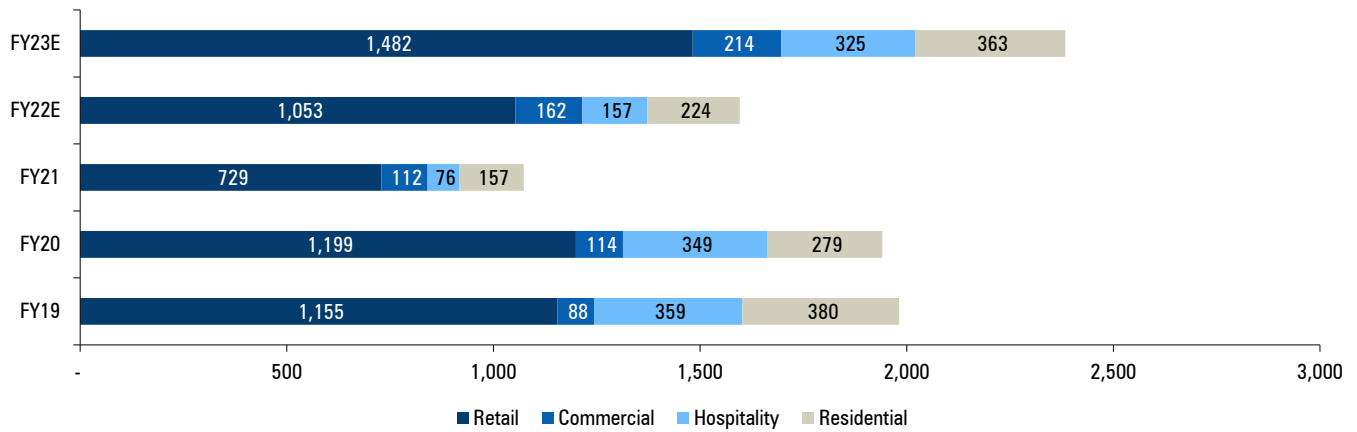
Exhibit 4: Commercial portfolio

| 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 | 0.14 | 101 |
| The Centrium | Mumbai | 0.28 | 0.16 | 0.12 | 0.06 | 118 |
| Art Guild House | Mumbai | 0.80 | 0.17 | 0.63 | 0.45 | 92 |
| Phoenix House | Mumbai | 0.09 | - | 0.09 | 0.07 | 177 |
| Fountainhead - Tower 1 | Pune | 0.17 | - | 0.17 | 0.16 | 80 |
| Fountainhead - Tower 2 | Pune | 0.25 | - | 0.25 | 0.10 | 76 |
| Total Operational | | 2.04 | 0.46 | 1.58 | 0.98 | |

Source: Company, ICICI Direct Research

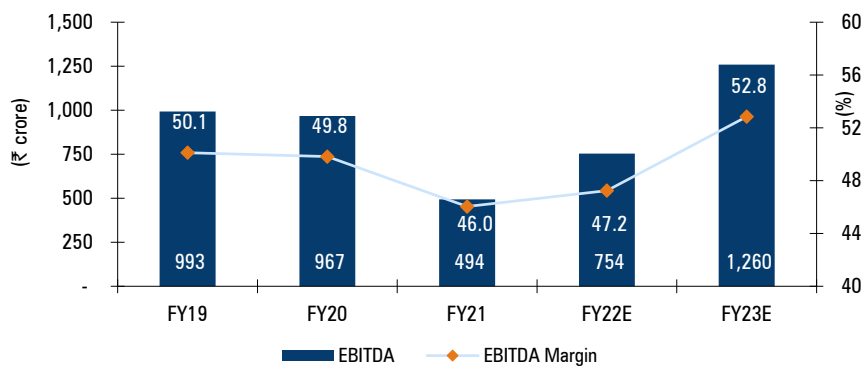
Financial story through charts

Exhibit 5: Revenue trend



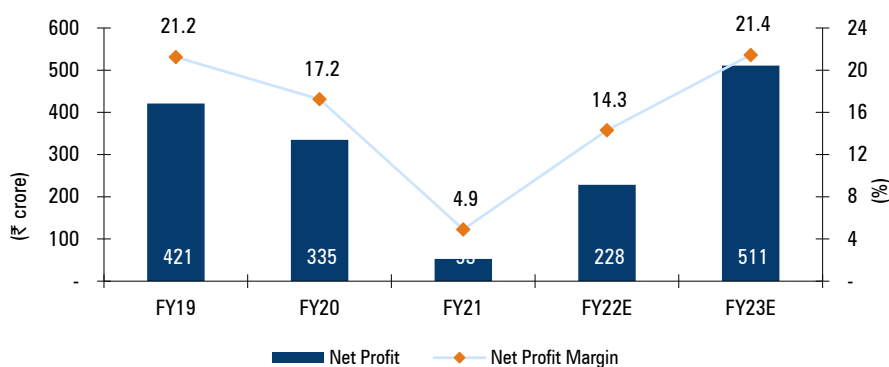
Source: Company, ICICI Direct Research

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, given the quality of assets, healthy balance sheet & strategic expansion plans. The QIP fund raise/investments by GIC/CPPIB has boosted the liquidity & growth ammunition. With only five to six major retail mall developers currently in India, and given its USP of operating large format properties efficiently, PML remains a superior player in the medium to long term. We expect retail rental income to grow at a CAGR of ~13.5% to ₹ 1913 crore in FY20-25E. We maintain BUY rating with a SoTP based target price of ₹ 1200/share. Furthermore, there is an optionality of ~₹ 140/share as we have not yet incorporated Hebbal and Wakad office into our estimates.

Exhibit 8: Valuation

| Type | Parameters | GAV (₹ crore) | Debt (₹ crore) | NAV (₹ crore) | PML Value (₹ crore) | Value/ share (₹/ share) |
|---------------------------------|----------------------------|---------------|----------------|---------------|---------------------|-------------------------|
| Retail | Leasable area (msf) | | | | | |
| Retail Operational | 7.1 | 16,395.3 | 3,438.0 | 12,957.3 | 10424 | 606 |
| Retail under construction | 5.4 | 4905 | 1640 | 4049 | 2054 | 119 |
| Retail Total | 12.5 | 21,301 | 5,078 | 17,006 | 12,479 | 726 |
| Commercial | Leasable area (msf) | | | | | |
| Commercial Operational | 1.6 | 1918 | | 1918 | 1584 | 92 |
| Commercial under construction | 4.6 | 1368 | 461 | 2774 | 2773 | 161 |
| Commercial Total | 6.2 | 3,287 | 461 | 4,692 | 4,357 | 253 |
| Hospitality | No of keys | | | | | |
| Hospitality Total | 588 | 2,293 | 494 | 1,799 | 1,354 | 79 |
| Residential | Saleable area (msf) | | | | | |
| Residential Total | 3.4 | 1,137 | 81 | 1,056 | 1,056 | 61 |
| Cash Equivalents | | | | | 1,320 | 77 |
| Grand Total | | | | | 20,565.4 | 1,196 |
| Rounded Off target price | | | | | | 1,200 |

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement ₹ crore

| ₹ crore | FY20 | FY21 | FY22E | FY23E |
|-----------------------------|----------------|----------------|----------------|----------------|
| Net Sales | 1,941.1 | 1,073.3 | 1,596.0 | 2,383.8 |
| Other Income | 58.5 | 92.3 | 96.9 | 101.8 |
| Total revenues | 1,999.6 | 1,165.6 | 1,693.0 | 2,485.5 |
| Raw Material Expenses | 195.9 | 76.9 | 143.6 | 214.5 |
| Employee Cost | 165.5 | 112.5 | 127.7 | 190.7 |
| Other Expenditure | 612.6 | 389.7 | 570.6 | 718.8 |
| Total Operating Expenditure | 974.0 | 579.1 | 841.9 | 1,124.0 |
| EBITDA | 967.1 | 494.2 | 754.1 | 1,259.8 |
| Interest | 347.8 | 347.8 | 325.0 | 431.0 |
| Depreciation | 207.6 | 209.4 | 209.4 | 254.5 |
| PBT | 478.0 | 29.2 | 316.6 | 676.0 |
| Tax | 122.1 | (4.7) | 79.8 | 170.4 |
| Reported PAT | 334.7 | 52.6 | 228.2 | 511.1 |
| EPS | 21.9 | 3.1 | 13.3 | 29.7 |

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

| ₹ crore | FY20 | FY21 | FY22E | FY23E |
|-------------------------------------------|----------------|----------------|------------------|------------------|
| Profit after Tax | 334.7 | 52.6 | 228.2 | 511.1 |
| Depreciation | 207.6 | 209.4 | 209.4 | 254.5 |
| Interest paid | 347.8 | 347.8 | 325.0 | 431.0 |
| Cash Flow before wc changes | 986.4 | 516.9 | 851.0 | 1,361.5 |
| Net Increase in Current Assets | (130.3) | 1.7 | 69.9 | (527.9) |
| Net Increase in Current Liabilities | 31.8 | (94.4) | (76.7) | 534.7 |
| Net cash flow from op. activities | 779.8 | 436.6 | 764.5 | 1,198.0 |
| Purchase of Fixed Assets | (780.3) | (744.2) | (1,132.9) | (1,461.2) |
| (Purchase)/Sale of Investments | (913.4) | (1,018.5) | - | - |
| Net cash flow from inv. activities | (544.1) | (585.2) | (1,100.2) | (1,409.5) |
| Proceeds from Long Term Borrowing | 922.1 | (181.2) | 721.4 | 604.1 |
| Interest paid | (325.6) | (368.0) | (325.0) | (431.0) |
| Net cash flow from fin. activities | (286.9) | 521.7 | 375.1 | 89.0 |
| Net Cash flow | (51.3) | 373.2 | 39.4 | (122.5) |
| Opening Cash | 192.0 | 140.7 | 513.9 | 553.3 |
| Closing Cash | 140.7 | 513.9 | 553.3 | 430.8 |

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet ₹ crore

| ₹ crore | FY20 | FY21 | FY22E | FY23E |
|-----------------------------|--------------|---------------|---------------|---------------|
| Equity Capital | 30.7 | 34.4 | 34.4 | 34.4 |
| Reserves & Surplus | 3,677.7 | 4,850.4 | 5,057.3 | 5,484.4 |
| Networth | 3,708.4 | 4,884.8 | 5,091.7 | 5,518.8 |
| Total Debt | 4,308.4 | 4,062.6 | 4,784.0 | 5,388.1 |
| Other financial liabilities | 202.1 | 156.7 | 153.0 | 228.6 |
| Deferred Tax Liability | 2.8 | 2.1 | 2.1 | 2.1 |
| Source of Funds | 9,500 | 10,425 | 11,391 | 12,544 |
| Gross Block | 7,503.5 | 8,532.9 | 8,541.9 | 10,379.1 |
| Less: Accumulated Dep | 1,423.9 | 1,633.3 | 1,842.7 | 2,097.2 |
| Net Block | 6,079.6 | 6,899.7 | 6,699.2 | 8,281.9 |
| Capital WIP | 1,534.1 | 1,274.0 | 2,397.9 | 2,021.9 |
| Total Fixed Assets | 7,613.7 | 8,173.6 | 9,097.1 | 10,303.8 |
| Investments | 428.0 | 474.9 | 474.9 | 474.9 |
| Inventories | 816.1 | 768.2 | 655.9 | 979.6 |
| Trade Receivables | 201.7 | 295.0 | 306.1 | 326.5 |
| Loans & Advances | 9.7 | 15.0 | 22.4 | 33.4 |
| Cash & Bank Balances | 140.7 | 513.9 | 553.3 | 430.8 |
| Other Current Assets | 412.2 | 325.9 | 349.8 | 522.5 |
| Total Current Assets | 1,742.1 | 2,017.1 | 1,986.5 | 2,391.9 |
| Trade Payable | 110.1 | 84.7 | 125.9 | 188.1 |
| Provisions | 76.1 | 85.5 | 87.5 | 117.6 |
| Other Current Liabilities | 860.8 | 859.6 | 743.4 | 1,110.2 |
| Total Current Liabilities | 1,047.0 | 1,029.9 | 956.7 | 1,415.9 |
| Net Current Assets | 695.1 | 987.2 | 1,029.8 | 976.0 |
| Application of Funds | 9,500 | 10,425 | 11,391 | 12,544 |

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios

| ₹ crore | FY20 | FY21 | FY22E | FY23E |
|-------------------------|------------|------------|------------|------------|
| Per Share Data | | | | |
| Reported EPS | 21.9 | 3.1 | 13.3 | 29.7 |
| Cash EPS | 35.4 | 15.2 | 25.4 | 44.5 |
| BVPS | 242.2 | 284.0 | 296.1 | 320.9 |
| Operating Ratios | | | | |
| EBITDA / Net Sales | 49.8 | 46.0 | 47.2 | 52.8 |
| PAT / Net Sales | 16.8 | 4.9 | 14.3 | 21.4 |
| Return Ratios | | | | |
| RoE | 8.8 | 1.1 | 4.5 | 9.3 |
| RoCE | 8.6 | 3.6 | 5.6 | 8.8 |
| RoIC | 11.2 | 3.7 | 7.3 | 11.0 |
| Valuation Ratios | | | | |
| EV / EBITDA | 22.1 | 42.2 | 28.5 | 17.7 |
| P/E | 46.2 | 330.4 | 76.2 | 34.0 |
| EV / Net Sales | 11.0 | 19.4 | 13.5 | 9.3 |
| Market Cap / Sales | 9.0 | 16.2 | 10.9 | 7.3 |
| Price to Book Value | 4.2 | 3.6 | 3.4 | 3.1 |
| Turnover Ratios | | | | |
| Asset turnover | 0.2 | 0.1 | 0.1 | 0.2 |
| Gross Block Turnover | 0.2 | 0.1 | 0.2 | 0.2 |
| Solvency Ratios | | | | |
| Net Debt / Equity | 1.1 | 0.7 | 0.8 | 0.9 |
| Current Ratio | 1.4 | 1.4 | 1.4 | 1.3 |
| Quick Ratio | 0.6 | 0.6 | 0.7 | 0.6 |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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