

Company update

Real Estate

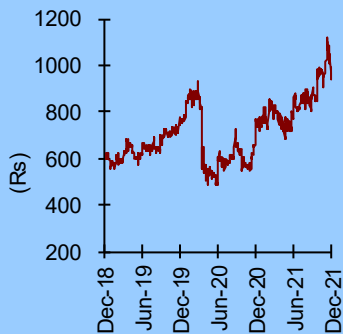
Target price: Rs1,231

Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	45.5	45.5	45.5
Institutional investors	50.9	50.6	50.3
MFs and other	15.3	15.0	16.9
FIs/Banks/Ins	0.7	0.7	0.6
FIIIs	34.9	34.9	32.8
Others	3.6	3.9	4.2

Source: NSE

Price chart



INDIA

The Phoenix Mills

BUY

Maintained

Rs1,065

Consumption revives, capital position a bulwark

As per company, The Phoenix Mills (PHNX) has clocked mall consumption of Rs6.6bn in Nov'21 which is 116% of Nov'19 levels and Rs6.7bn in Oct'21 which is 91% of Oct'19 levels. While the threat of a fresh round of Covid induced mall closures remains a risk, we expect mall rentals to revert to pre-Covid levels by Q4FY22 as consumption continues to improve. With the company having received an additional Rs7.8bn of liquidity from CPPIB in Nov'21 as the first tranche for The Rise office/retail project in Mumbai, PHNX has cumulatively raised/tied up Rs43.5bn of funding between Q2FY21-Q3FY22. With just Rs13.8bn of net debt as of Nov'21, the company's strong balance sheet acts as a cushion against any fresh Covid induced rental losses. We reiterate our BUY rating with an unchanged Mar-22 SoTP based target price of Rs1,231/share which includes Phoenix Rise office and retail project of 1.2msf and retain our 10% premium to NAV considering growth opportunities from growth capital raised from GIC PE and CPPIB platform deals. Key risks to our call are a fresh Covid wave impacting mall consumption and fall in mall occupancies and rentals.

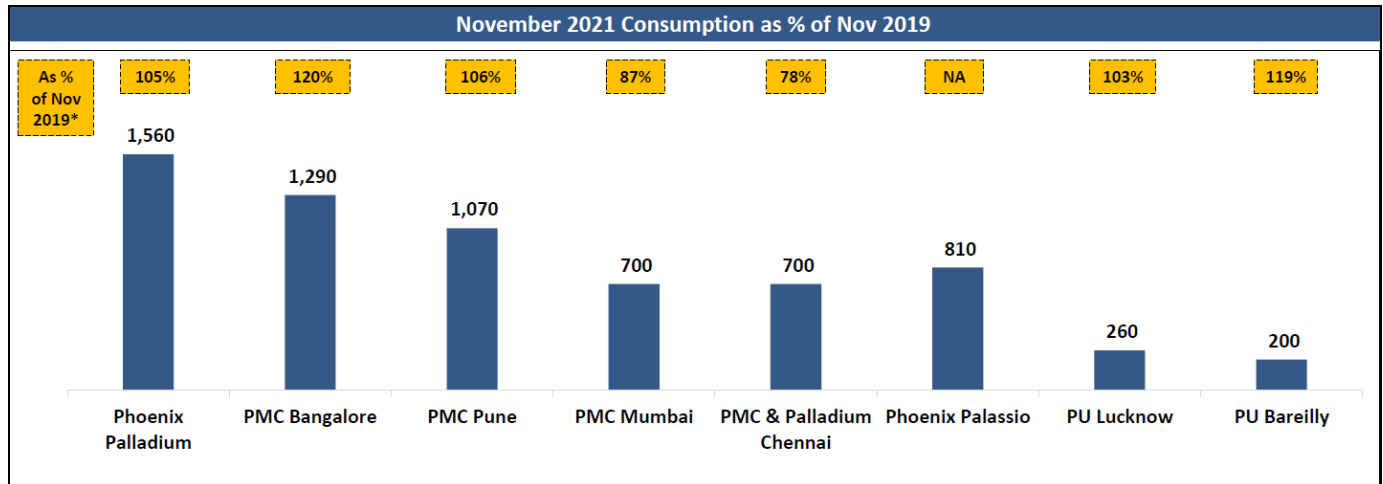
- Consumption recovery firmly on track:** In Q2FY22, consumption across PHNX's malls stood at Rs10.1bn vs. Rs4.7bn in Q2FY21 and 63% of Q2FY20 (pre-Covid) on LTL basis owing to reopening of malls across India in a calibrated manner. This momentum has carried forward into Oct'21 where PHNX has clocked consumption of Rs6.7bn or 91% of Oct'19 levels with Nov'21 seeing consumption of Rs6.6bn or 116% of Nov'19 levels. With incremental consumption from multiplexes yet to contribute meaningfully, we expect consumption to trend higher in Q4FY22 barring any fresh Covid induced mall closures or drop in footfalls. We believe that sustained consumption recovery would flow into rental increases from FY23E onwards.
- Funding tie-up with CPPIB for Project Rise derisks the project:** PHNX has entered into an agreement with CPPIB in Nov'21 wherein CPPIB will cumulatively infuse Rs13.5bn for a 49% equity stake in The Rise project at Lower Parel, Mumbai comprising of 1.0msf of offices and 0.2msf of retail. Of the estimated project capex of Rs11.5bn (ex-land), Rs3.5bn has been incurred towards FSI premium/approval costs. CPPIB has infused Rs7.8bn as its first tranche of investment for a 35.9% stake which is sufficient to fund balance capex of Rs8.0bn over FY22-26E.
- Estimated rental income CAGR of 14% over FY20-25E:** PHNX will have ~13msf operational mall space by FY26E (6.9msf currently operational). We expect PHNX to achieve a 14% rental income CAGR (ex-new Kolkata asset) over FY20-25E resulting in Rs19.5bn of rental income in FY25E vs. ~Rs10bn in FY20. Of the Rs19.5bn of gross rental income in FY25E, PHNX share is ~70% or Rs13.8bn.

Market Cap	Rs183bn/US\$2.4bn	Year to Mar	FY21	FY22E	FY23E	FY24E
Reuters/Bloomberg	PHOE.BO / PHNX IN	Revenue (Rs bn)	10.7	15.4	22.2	27.5
Shares Outstanding (mn)	172.0	Rec. Net Income (Rs bn)	0.5	1.7	4.4	5.9
52-week Range (Rs)	1200/672	EPS (Rs)	3.1	10.0	25.6	34.7
Free Float (%)	54.5	% Chg YoY	(86.0)	225.2	156.3	35.6
FII (%)	32.8	P/E (x)	341.2	104.9	40.9	30.2
Daily Volume (US\$/'000)	3,686	P/B (x)	3.7	3.6	3.3	3.0
Absolute Return 3m (%)	22.2	EV/E (x)	44.3	27.4	17.0	13.9
Absolute Return 12m (%)	40.8	Dividend yield (%)	0.4	0.4	0.4	0.4
Sensex Return 3m (%)	0.8	RoCE (%)	4.0	5.4	7.9	9.5
Sensex Return 12m (%)	29.9	RoE (%)	0.9	3.2	8.2	10.3

Research Analyst:

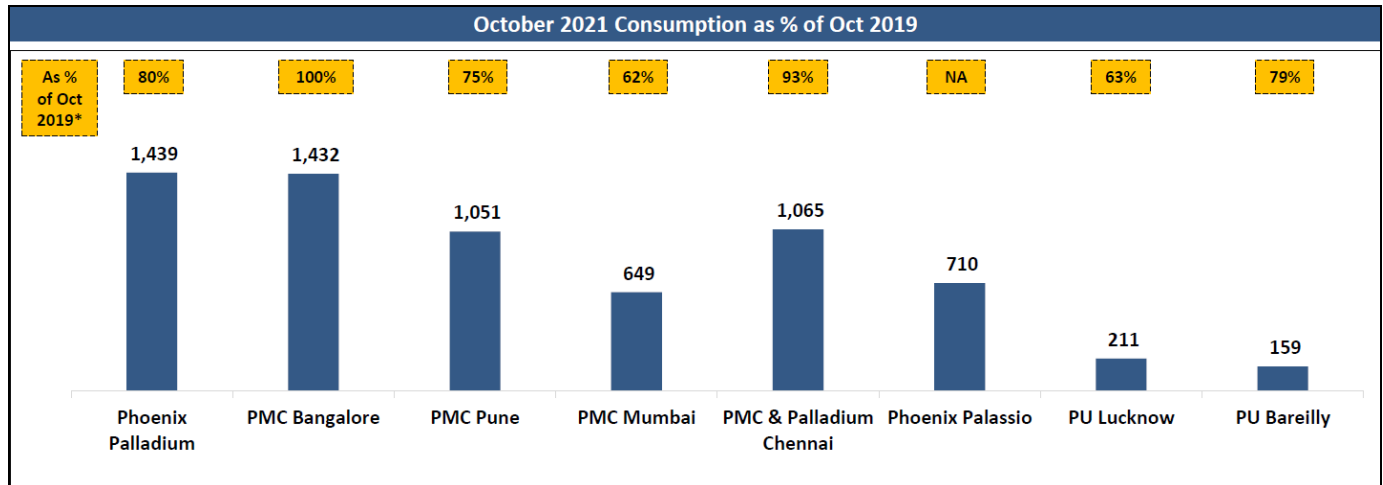
Adhidev Chattopadhyay
adhidev.chattopadhyay@icicisecurities.com
+91 22 6807 7451

Chart 1: Nov'21 consumption at 116% of Nov'19 levels



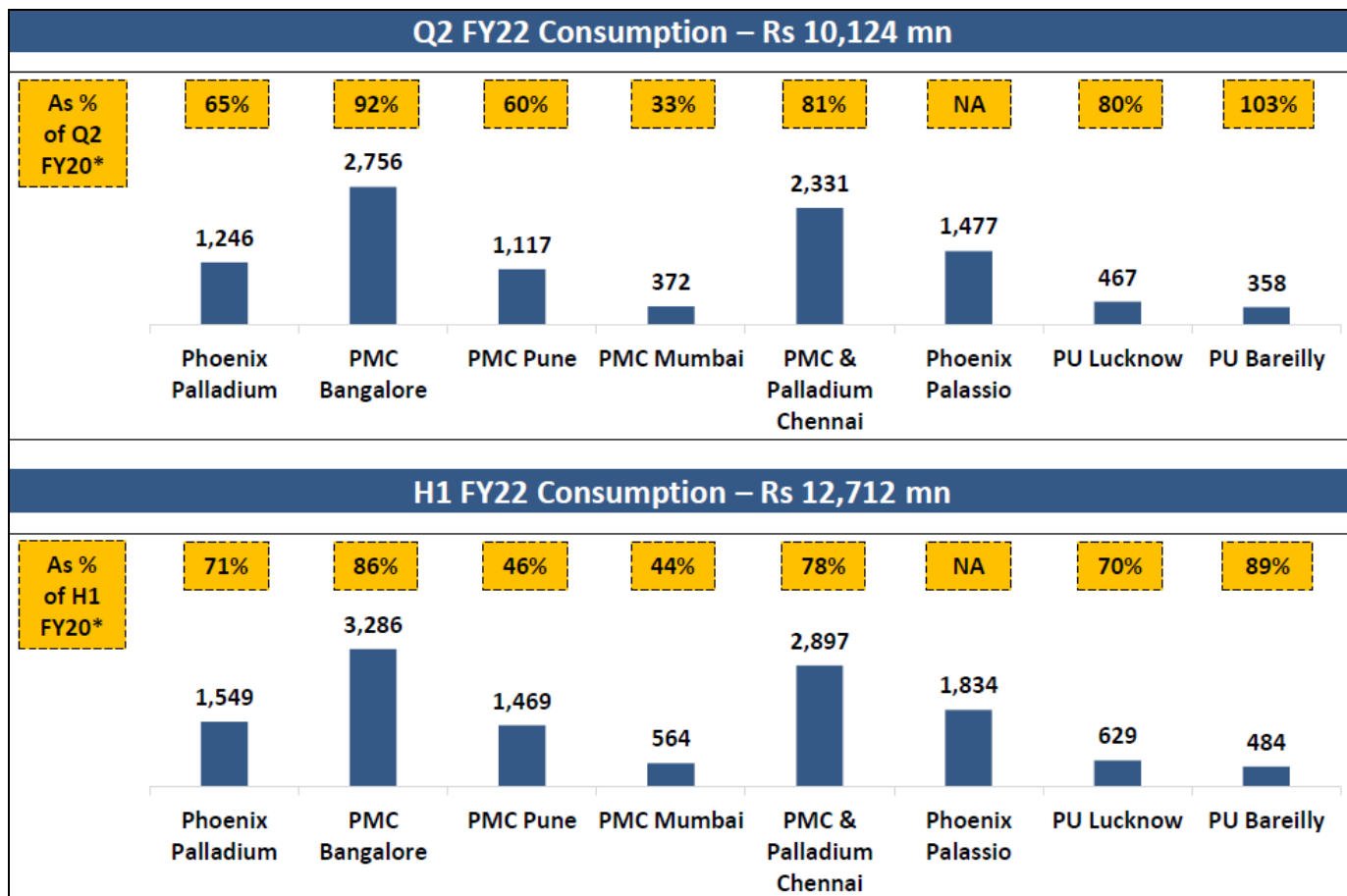
Source: Company data, I-Sec research, *Phoenix Palassio commenced operations in FY21

Chart 2: Oct'21 consumption at 91% of Oct'19 levels



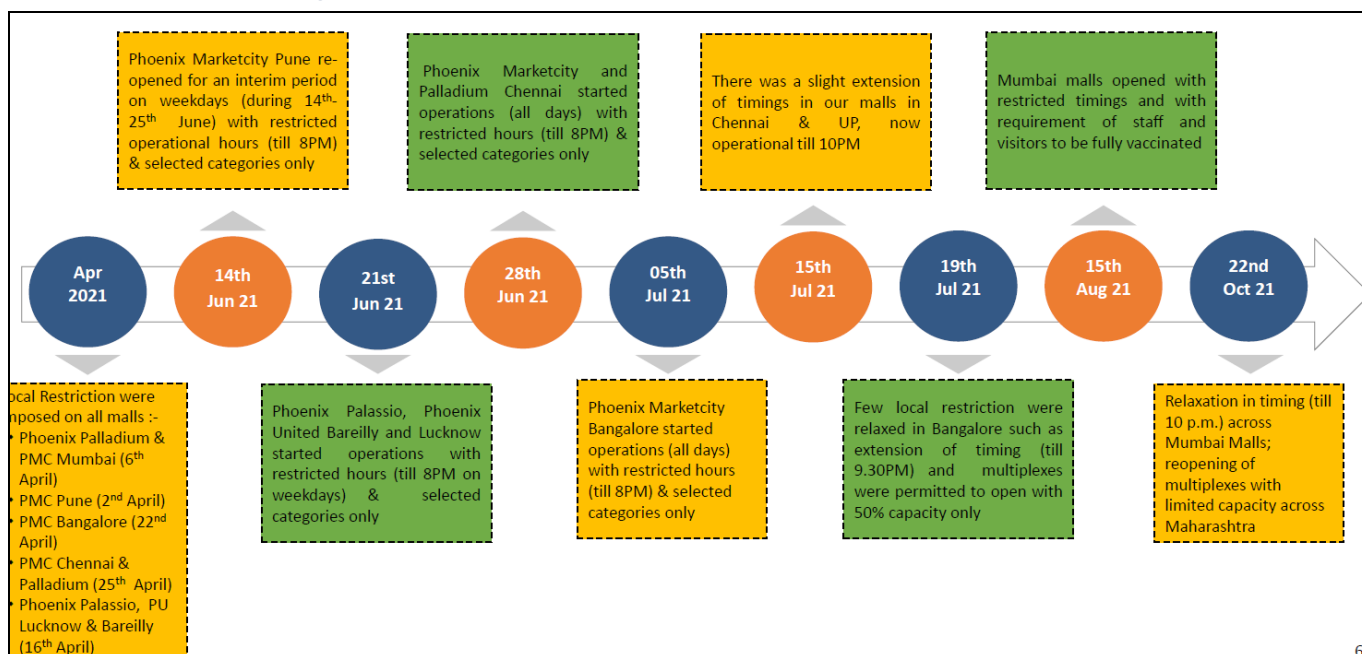
Source: Company data, I-Sec research, *Phoenix Palassio commenced operations in FY21

Chart 3: Q2FY22 consumption across malls at Rs10.1bn



Source: Company data, I-Sec research, *Phoenix Palassio commenced operations in FY21

Chart 4: Mall re-opening timeline post second Covid wave in YTFY22



Source: Company data, I-Sec research

Table 1: Q2FY22 Asset wise quarterly operating metrics

Rs mn	Q2FY22	% of Q2FY20	Q2FY21	Q2FY20
Retail Rental Income (ex-CAM)				
High Street Phoenix (HSP)	466	53%	334	879
Bengaluru Market City	351	97%	128	360
Pune Market City	221	52%	136	427
Kurla Market City	177	55%	87	321
Chennai Market City*	393	83%	74	475
Lucknow Pallasio	245	NA	37	NA
Phoenix United, Bareilly	58	106%	28	55
Phoenix United, Lucknow	74	94%	37	79
Total	1,984	76%	861	2,595
Retail EBITDA				
High Street Phoenix (HSP)	355	46%	236	767
Bengaluru Market City	384	103%	148	373
Pune Market City	207	48%	138	436
Kurla Market City	160	48%	96	331
Chennai Market City*	426	97%	64	440
Lucknow Pallasio	253	NA	37	NA
Phoenix United, Bareilly	59	125%	33	47
Phoenix United, Lucknow	68	92%	25	74
Total	1,912	77%	777	2,468

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

Table 2: H1FY22 Asset wise quarterly operating metrics

Rs mn	H1FY22	% of H1FY20	H1FY21	H1FY20
Retail Rental Income (ex-CAM)				
High Street Phoenix (HSP)	759	43%	678	1,760
Bengaluru Market City	463	64%	248	719
Pune Market City	329	38%	261	859
Kurla Market City	265	41%	174	644
Chennai Market City*	542	58%	208	942
Lucknow Pallasio	317	NA	37	NA
Phoenix United, Bareilly	77	69%	40	111
Phoenix United, Lucknow	102	65%	59	156
Total	2,854	55%	1,704	5,190
Retail EBITDA				
High Street Phoenix (HSP)	703	45%	639	1,547
Bengaluru Market City	505	67%	283	758
Pune Market City	305	35%	256	876
Kurla Market City	241	37%	174	654
Chennai Market City*	565	60%	189	936
Lucknow Pallasio	334	NA	37	NA
Phoenix United, Bareilly	79	74%	50	107
Phoenix United, Lucknow	98	67%	52	146
Total	2,831	56%	1,680	5,023

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

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 FY22E basis assuming a cap rate of 8% for rental assets.
- **We reiterate our BUY rating with an unchanged Mar-22 SoTP based target price of Rs1,231/share which includes Phoenix Rise office and retail project of 1.2msf at High Street Phoenix and assume 30% like-to-like retail rental income loss in FY22E as compared to FY20 and incorporate first tranche of GIC fund infusion of Rs11.1bn in the identified asset SPVs and first round of CPPIB infusion of Rs7.8bn in The Rise, Lower Parel project SPV. We retain our 10% premium to NAV considering growth opportunities from growth capital raised from GIC PE and CPPIB platform deals.**
- **Key risks to our call are a fresh Covid wave impacting mall consumption and fall in mall occupancies and rentals.**
- Our NAV factors in a one-time like-for-like loss of Rs3.0bn of rental income in FY22E across existing malls and 6-9 months delay in under construction assets.

Table 3: Key historical numbers and assumptions (including new assets)

Year ending March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Rental properties							
Net rental income - 100% share	8,693	9,762	10,275	5,632	8,342	12,793	16,336
Net rental income - PHNX share	7,405	8,211	8,643	4,845	6,632	9,975	11,966

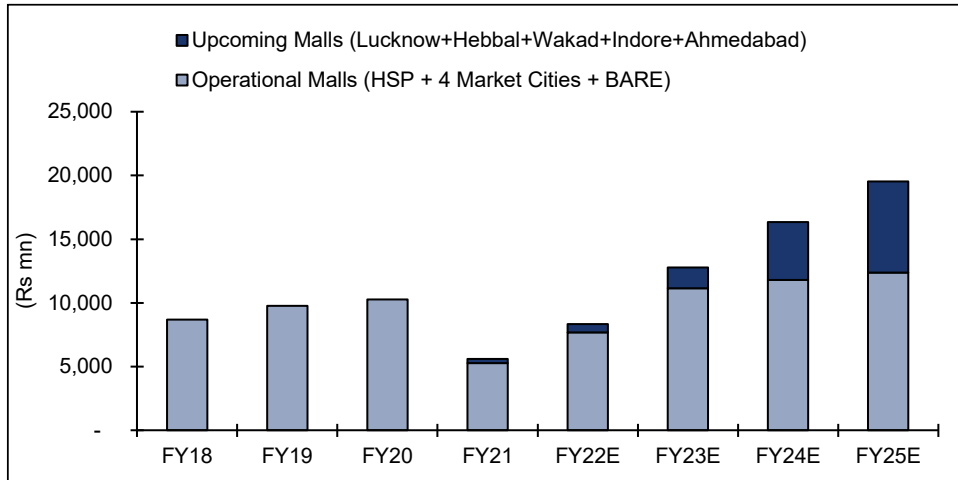
Source: Company data, I-Sec research estimates

Table 4: SoTP valuation

Project	PHNX FY22E GAV		
	(Rs mn)	Rs/share	% of GAV
High Street Phoenix – Palladium	51,613	302	24.8
High Street Phoenix – Rise – for 64% stake	16,212	95	7.8
Kurla (Offbeat Developers) – for 74% stake	13,621	80	6.5
Pune (Vamona Developers) – for 74% stake	17,614	103	8.5
Bengaluru East (Island Star) – for 51% stake	12,912	75	6.2
Pune Wakad (CPPIB-Island Star) – for 51% stake	5,032	29	2.4
Bengaluru Hebbal (CPPIB-Island Star) – for 51% stake	10,207	60	4.9
Ahmedabad Market City (BSafal) – for 50% stake	3,531	21	1.7
Indore Market City (CPPIB-Island Star) – for 51% stake	4,155	24	2.0
Lucknow – Gomti Nagar Market City – for 100% stake	15,618	91	7.5
Kolkata Market City – for 51% stake (Palladium/Platinum)	4,318	25	2.1
Bengaluru West (Palladium/Platinum)	7,840	46	3.8
Chennai (Classic Mall) – for 50% stake	12,961	76	6.2
St. Regis Hotel (Pallazio)	13,238	77	6.4
BARE (Lucknow & Bareilly)	9,102	53	4.4
Others	10,131	59	4.9
Total GAV	208,103	1,216	100.0
Less: FY22E Net Debt (PHNX economic share)	16,511	96	
FY22E NAV	191,591	1,119	
Add: 10% premium to NAV	19,159	112	
Target Price	210,750	1,231	

Source: I-Sec research estimates

Chart 5: Rental income CAGR of 14% over FY20-25E



Source: Company data, I-Sec research estimates

Financial Summary (consolidated)

Table 5: Earnings statement
(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Net Sales	10,733	15,362	22,221	27,485
Operating Expenses	5,792	7,888	9,960	12,637
EBITDA	4,941	7,474	12,261	14,848
% margins	46%	49%	55%	54%
Depreciation & Amortisation	2,094	2,261	2,944	3,085
Interest expenses	3,478	3,740	3,732	3,808
Other Income	923	969	1,017	1,068
Exceptional items	-	-	-	-
PBT	292	2,442	6,603	9,023
Less: Taxes	(47)	488	1,321	1,805
PAT before				
Minority/Associate	338	1,954	5,282	7,218
Minority/Associate share	187	(245)	(904)	(1,283)
Net Income (Reported)	525	1,708	4,378	5,935

Source: Company data I-Sec research

Table 6: Balance sheet
(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Assets				
Total Current Assets	22,127	40,381	37,573	39,319
of which cash & cash eqv.	5,139	23,643	21,085	23,081
Total Current Liabilities & Provisions	7,664	7,227	7,871	8,578
Net Current Assets	14,463	33,154	29,702	30,741
Goodwill/Investments	9,451	11,451	13,451	15,451
Net Fixed Assets	69,013	69,061	69,811	71,148
Capital WIP	12,740	22,219	28,653	31,955
Total Assets	1,05,666	1,35,885	1,41,618	1,49,295
Liabilities				
Borrowings	44,865	48,865	49,865	50,865
Equity Share Capital	344	344	344	344
Reserves & Surplus*	48,504	49,511	53,188	58,421
Net Worth	48,848	49,855	53,532	58,765
Minority Interest	13,190	38,401	39,457	40,901
Deferred Taxes	(1,237)	(1,237)	(1,237)	(1,237)
Total Liabilities	1,05,666	1,35,885	1,41,618	1,49,295

Source: Company data I-Sec research

Table 7: Cashflow statement
(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
PBT	292	2,442	6,602	9,022
Depreciation	2,094	2,261	2,944	3,085
Non-Cash Adjustments	(913)	(912)	(911)	(911)
Working Capital Changes	(927)	(186)	893	958
Taxes Paid	47	(488)	(1,321)	(1,805)
Operating Cashflow	592	3,116	8,208	10,350
Capital Commitments	(6,949)	(11,788)	(10,129)	(7,724)
Free Cashflow	(6,357)	(8,672)	(1,921)	2,626
Other investing cashflow	-	(2,000)	(2,000)	(2,000)
Cashflow from Investing				
Activities	(6,949)	(13,788)	(12,129)	(9,724)
Issue of Share Capital*	11,357	24,820	-	-
Inc (Dec) in Borrowings	(2,228)	4,000	1,000	1,000
Dividend paid	(3)	(701)	(701)	(701)
Cashflow from Financing				
activities	9,127	28,119	299	299
Chg. in Cash & Bank				
balances	2,770	17,447	(3,622)	925

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

Table 8: Key ratios
(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
EPS	3.1	10.0	25.6	34.7
Cash EPS	15.3	23.2	42.8	52.7
Dividend per share (DPS)	4.1	4.1	4.1	4.1
Book Value per share (BV)	285.4	291.2	312.7	343.3
Growth (%)				
Net Sales	(44.7)	43.1	44.6	23.7
EBITDA	(48.9)	51.3	64.0	21.1
PAT	(84.3)	225.2	156.2	35.6
Valuation Ratios (x)				
P/E	341.2	104.9	40.9	30.2
P/BV	3.7	3.6	3.3	3.0
EV / EBITDA	44.3	27.4	17.0	13.9
Dividend Yield	0.4	0.4	0.4	0.4
Operating Ratios				
Debt/EBITDA (x)	9.1	6.5	4.1	3.4
Net D/E	0.8	0.5	0.5	0.5
Return Ratios (%)				
RoE	0.9	3.2	8.2	10.3
RoCE	4.0	5.4	7.9	9.5
EBITDA Margins	46.0	48.7	55.2	54.0
Net Income Margins	4.9	11.1	19.7	21.6

Source: Company data I-Sec research

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