

## Strong consumption recovery across assets...

**About the stock:** Phoenix Mills (PML) is a leading retail mall developer and operator 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 is developing ~6 mn sq ft of retail space. It has 2 mn sq ft operation in commercial segment and plans to add ~5 mn sq ft

**Q4FY22 Results:** PML reported a strong operating performance.

- Revenues grew ~16.6% YoY to ₹ 495 crore. Retail revenues grew ~25.9% YoY at ₹ 336.9 crore. **The retail rental at ₹ 250.6 crore, was at ~100% of Q4FY19 (pre-Covid level). Consumption in Q4FY22 (including Phoenix Palassio) was ~103% of Q4FY19 (pre-Covid), and ~92% on like to like basis. The momentum in consumption remained healthy during April 2022 (at ₹ 720.2 crore ;129% of April 2019) and May 2022 (at 125%+ of May 2019).**
- EBITDA margins were up 371 bps YoY to 48.7%, with operating leverage kicking in. The company reported PAT of ₹ 104.8 crore, up 60% YoY

**What should investors do?** PML's share price has grown 163% over the past five years (from ~₹ 411 in May 2017 to ~₹ 1101 levels in May 2022).

- We maintain our **BUY** rating as PML remains a quasi-play on India's consumption story, given the quality of assets, healthy balance sheet & strategic expansion plans

**Target Price and Valuation:** We value PML at ₹ 1320/share.

### Key triggers for future price performance:

- Focused on core competence in 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% to ₹ 1884 crore in FY20-25E
- Strong addition pipeline in the commercial segment, which is likely to expand to ~7 msf in four to five years, from 2 msf currently
- Healthy balance sheet and strategic expansion plan to add organic/inorganic retail assets

**Alternate Stock Idea:** Besides PML, we like Brigade Enterprises in real estate space.

- A play on well-placed Bengaluru real estate
- BUY with a target price of ₹ 550



Particulars	Amount (₹ crore)
Market Capitalization	19,660.4
Total Debt (FY22)	4,379.5
Cash (FY22)	592.6
EV	23,447.3
52 week H/L (₹)	1195 / 729
Equity capital	35.7
Face value	₹ 2

Shareholding pattern				
	Sep-21	Dec-21	Jan-22	Mar-22
Promoters	45.5	45.4	47.3	47.3
DII	17.5	18.0	17.1	16.7
FII	32.3	31.6	30.6	30.7
Other	4.7	4.9	4.9	5.3



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

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Key Financial Summary							
(₹ Crore)	FY20	FY21	FY22	5 yr CAGR (FY16-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales (₹ crore)	1,941.1	1,073.3	1,483.5	-4%	2,308.4	2,850.1	39%
EBITDA (₹ crore)	967.1	494.2	733.9	-3%	1,227.4	1,581.0	47%
EBITDA margin (%)	49.8	46.0	49.5		53.2	55.5	
Adj. Net Profit (₹ crore)	327.0	52.6	237.4	7%	494.5	627.1	63%
Adj. EPS (₹)	21.4	2.9	13.3		27.7	35.1	
P/E (x)	50.4	373.7	82.8		39.8	31.4	
EV/EBITDA (x)	24.5	46.8	29.5		19.1	14.9	
Price / Book (x)	4.5	4.0	3.0		2.8	2.6	
RoCE (%)	8.6	3.6	4.6		7.9	9.3	
RoE (%)	8.8	1.1	3.6		7.0	8.2	

## Key business highlight and outlook

- Retail properties KPIs:** Despite the impact of Omicron wave in January 2022, consumptions across all categories has exceeded pre-Covid-19 levels and improved to ₹ 1,669.3 crore during Q4FY22 (15.9% YoY; 103% of Q4FY19) largely driven by increase in mall operations and resumption in F&B activities. Additionally, the momentum in consumption remained healthy during April 2022 (at ₹ 720.2 crore ;129% of April 2019) and May 2022 (at 125%+ of May 2019) with resumption of marquee events, and live concerts across its malls post easing of restrictions. **Further, retail collections remained strong with collections of ₹ 476 crore, ₹ 170+ crore registered during Q4FY22, April 2022, respectively.** Going forward, the management expects gained momentum in consumption/ collection levels to continue with a) improving demand, and b) normalisation in business operations. Additionally, 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**
- Expansion strategy in retail business:** PML has set a target to add ~1 mn sq ft of GLA each year post FY25 and looking for greenfield opportunities at various regions including Kolkata, Surat, Jaipur, Chandigarh, Hyderabad among others). In line with that, the company has signed an in-principle closure for land located at Surat. As per the management, the cost to build a mall at targeted cities to remain in the range of ₹ 1,200-1,500 crore. The funding would be either solely by PML or with joint venture partner – GIC
- Commercial KPIs:** In the commercial business, Phoenix's office portfolio was least impacted and commercial revenues improved to ₹ 43.1 crore, ₹ 158 crore during Q4FY22, FY22, respectively. **Collection efficiency was at ~96%.** 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 building (total area: 0.25 mn sq ft), 0.13 mn sq ft area has been leased till now. Additionally, construction of Fountainhead tower 3 (total area: 0.41 mn sq ft; rental expectation: ₹ 70-75/ sq ft) has been completed and occupancy certificate was received in December 2021. The management expects rental to start over next few months. **In total, PML has witnessed strong leasing traction during FY22 wherein it has leased gross area of 3.97 lakh sq ft (renewed area: 2.12 lakh sq ft and signed new deals: 1.85 lakh sq ft).** Further, leasing momentum is likely to continue in FY23 (already done gross leasing of 1.2 lakh sq ft during April-May 2022 period)
- Residential business:** The residential segment reported revenues of ₹ 57.9 crore during Q4FY22 as the company witnessed strong demand for ready to move in inventory, faster conversions, and reconfiguration of Kessaku into smaller units. Sales, collections were healthy at ₹ 180.8 crore, ₹ 97.8 crore, respectively, in Q4FY22. Also, **the company has achieved overall sales of ₹ 341 crore during FY22 (including ₹ 153.5 crore worth of sales where registration is pending) and collections were at ₹ 276.5 crore.** Going forward, PML is expected to witness healthy demand with faster conversions backed by effective digital marketing efforts and various schemes & offers (plans to launch a subvention scheme for entire project portfolio)
- Hospitality portfolio:** Hospitality business revenues improved 104% YoY to ₹ 49.5 crore during Q4FY22 with uptick in social events and revival in corporate travels (despite occupancy being impacted by Omicron wave during January 2022). St Regis average occupancy remained at an elevated level of 72%. Additionally, average room rentals (ARR) improved from ₹ 6,540 in July 2021 to ₹ 8,442 during Q4FY22. Further, improved revenue and various cost rationalization exercises has translated into 25% EBITDA margin (vs. 4% in Q4FY21). Room occupancy and ARR has improved further to 92% and ₹ 11,745 in April 2022 (and to ~₹ 12,400 in May 2022) and likely

to remain at an elevated level with resumption of foreign travel, domestic corporate travel, social events and staycations. Also, most venues on the hotel's 37th and 38th floors were under-renovation and likely to reopen during May, June 2022, which is likely to further add substantially to monthly revenue run rate. In Agra Courtyard Marriot, average occupancy witnessed improvement to 55% in Q4FY22, 63% in April 2022 (vs. 53% during Q4FY21). ARR improved from ₹ 3,116 in July 2021 to ₹ 4,300 during Q4FY22 with ARR staying at an elevated level of ₹ 4,024 in April 2022

- **Lease status in under-construction malls:** a) Phoenix Citadel (Indore): to start operation by September 2022; pre-lease commitments reached ~74% by FY22-end, b) Palladium (Ahmedabad): to begin by September 2023; ~85% of retail GLA pre-leased by FY22-end, c) Phoenix Millennium (Wakad): expected to start by H1FY24; commitments reached ~51% by FY22-end, and d) Phoenix Mall of Asia (Hebbal, Bangalore): to begin operation by H1FY24; ~66% of retail GLA pre-leased by FY22-end
- **Project rise update:** The company has executed an agreement with Canada Pension Plan Investment Board to develop office led mixed use development at Lower Parel. The company expects to add office GLA of 1mn sq ft and retail GLA of 0.2 mn sq ft. **Currently, the company has received environment clearance for the project and expects construction to begin in FY24 and conclude by FY26**
- **Rental update:** The minimum guarantee rent for space coming for renewal/new brands during FY23 is likely to witness 11-12% growth from the exit rate for contract ended in FY22. Additionally, the company is likely to command higher percentage of revenue share, going forward
- **Acquisition of stake in CMDL:** PML has completed the acquisition of the balance 50% equity shareholding of Crest Ventures Ltd and Escort Developers Pvt Ltd (a 100% subsidiary of Crest Ventures Ltd) held in Classic Mall Development Company (CMDL). Post the acquisition, CMDL has become a wholly owned subsidiary of PML. The consideration paid by PML stood at ₹ 936 crore. However, the sellers have repaid ICDs of ₹ 251 crore back to CMDL. Also, CMDL has received ₹ 97 crore on account of OFCDs redemption from its associate company. **Effectively, the net deal value was at ₹ 637 crore.** PML has funded the acquisition via internal accruals and available cash on balance sheet
- **Debt:** Gross debt as on March 31, 2022 was at ₹ 4,379.5 crore (up ₹ 75 crore QoQ). Effectively, net debt was at ₹ 1,880.3 crore. Average cost of borrowing has reduced to 7.3% in March 2022 (down 31 bps QoQ) whereas lowest rate on borrowing was at 6.55%. The management **expects borrowing cost to decline further by ~30 bps as downward repricing is expected, going forward**
- **Capex:** The company has incurred capex of ₹ 267 core, ₹ 1,200 crore during Q4FY22, FY22, respectively (includes payment towards FSI, land) **and expects to incur capex of ₹ 1,600 crore during FY23**

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (Chg %)	Q3FY22	QoQ (Chg %)	Comments
Income from Operation	495.4	455.9	385.8	28.4	425.0	16.6	On the core portfolio (commercial + retail + hospitality) front, revenues grew by ~32.8% YoY to ₹ 438 crore. The retail revenues grew by ~25.9% YoY at ₹ 336.9 crore, while hospitality revenues were up ~95.6% YoY at ₹ 58.1 crore, albeit lower QoQ due to Omicron impact
Other Income	24.4	25.4	49.6	-50.8	22.0	11.0	
Total raw material Expense:	33.9	30.0	30.9	9.6	21.8	55.4	
Employee cost	41.4	42.9	32.0	29.5	40.7	1.6	
Other expenditure	158.6	115.0	121.9	30.1	110.2	44.0	
EBITDA	241.1	245.0	173.4	39.0	230.5	4.6	
EBITDA Margin (%)	48.7	53.7	44.9	371 bps	54.2	-557 bps	
Depreciation	44.1	46.0	52.0	-15.3	46.1	-4.4	
Interest	78.3	70.0	80.7	-2.9	68.6	14.2	
PBT	143.1	154.4	90.3	58.5	137.8	3.8	
Taxes	25.7	38.9	26.0	-1.0	35.5	-27.6	
Reported PAT	104.8	113.4	65.5	60.0	98.9	6.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22		FY23E		FY24E		Comments	
	New	Old	New	% Change	Old	New		% Change
Revenue	1483.5	2272.2	2308.4	1.6	2,787.8	2850.1	2.2	Realigned estimates
EBITDA	733.9	1205.3	1227.4	1.8	1,535.6	1581.0	3.0	
EBITDA Margin (%)	49.5	53.0	53.2	12 bps	55.1	55.5	39 bps	
PAT	237.4	502.3	494.5	-1.6	649.7	627.1	-3.5	
EPS (₹)	13.3	29.2	27.7	-1.6	37.8	35.1	-3.5	

Source: Company, ICICI Direct Research

## Company Analysis

Exhibit 3: Retail income trend

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY Growth (%)	QoQ Growth (%)
<b>Rental Income (₹ crore)</b>							
HSP & Palladium	66.2	29.3	46.6	72.5	73.6	11.2	1.5
PMC Mumbai	25.5	8.8	17.7	26.1	28.2	10.6	8.0
PMC Bangalore	29.3	11.2	35.1	38.6	37.1	26.6	(3.9)
PMC & Palladium Chennai*	33.8	14.9	39.3	41.8	34.6	2.4	(17.2)
PMC Pune	33.6	10.9	22.1	43.2	41.0	22.0	(5.1)
Phoenix Pallasio	16.1	7.2	24.5	24.8	23.8	47.8	(4.0)
Phoenix United Lucknow	6.4	2.8	7.4	7.7	6.8	6.3	(11.7)
Phoenix United Bareilly	5.7	1.9	5.8	6.0	5.6	(1.8)	(6.7)

Source: Company, ICICI Direct Research

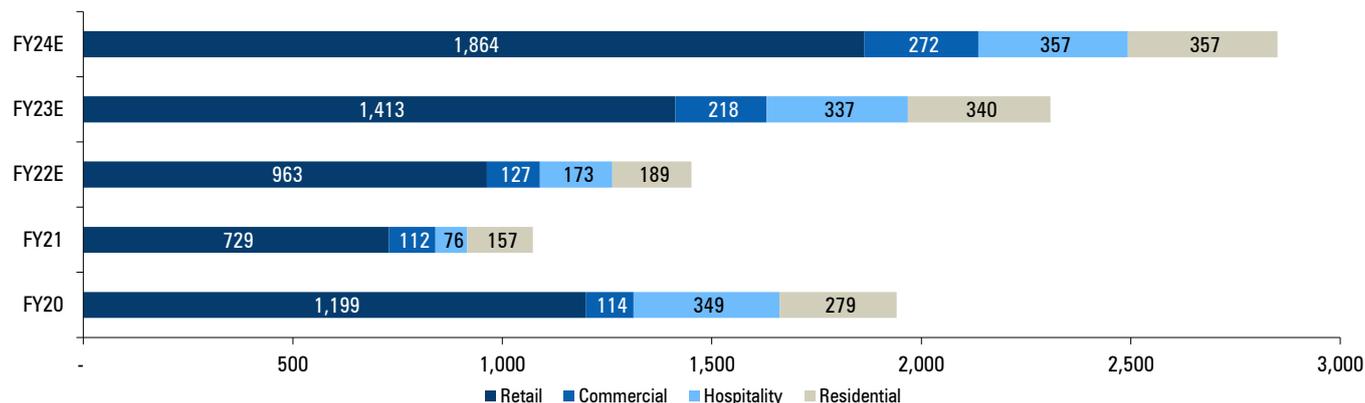
Exhibit 4: Commercial portfolio

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	0.13	112
The Centrium	Mumbai	0.28	0.16	0.12	0.06	110
Art Guild House	Mumbai	0.80	0.17	0.63	0.47	107
Phoenix House	Mumbai	0.09	-	0.09	0.07	178
Fountainhead - Tower 1	Pune	0.17	-	0.17	0.16	79
Fountainhead - Tower 2	Pune	0.25	-	0.25	0.13	71
Fountainhead - Tower 3	Pune	0.41	-	0.41		
<b>Total Operational</b>		<b>2.45</b>	<b>0.46</b>	<b>1.99</b>	<b>1.02</b>	

Source: Company, ICICI Direct Research

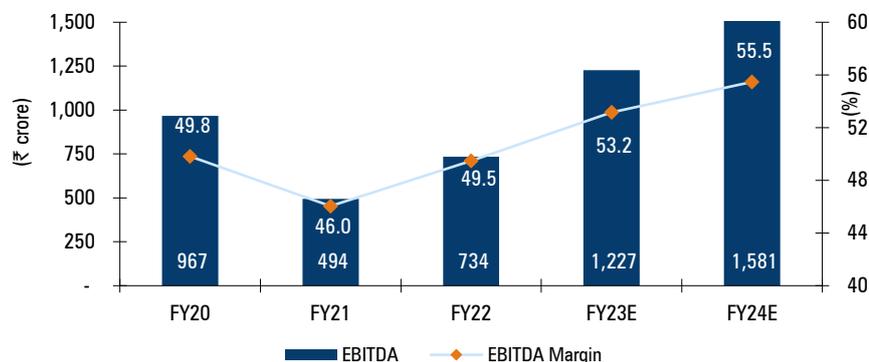
## Financial story through charts

Exhibit 5: Revenue trend



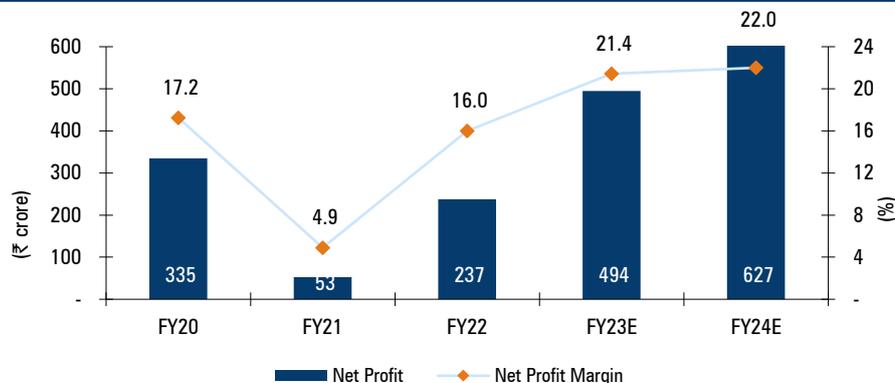
Source: Company, ICICI Direct Research

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, 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% to ₹ 1884 crore in FY20-25E. We maintain BUY rating with a SoTP based target price of ₹ 1320/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	7.1	15,298.7	3,438.8	11,859.9	10225	573
Retail under construction	5.8	4987	1640	4130	2095	117
<b>Retail Total</b>	<b>12.9</b>	<b>20,285</b>	<b>5,079</b>	<b>15,990</b>	<b>12,320</b>	<b>690</b>
<b>Commercial</b>	<b>Leasable area (msf)</b>					
Commercial Operational	2.0	2369		2310	1946	109
Commercial under construction	5.1	4819	1068	5944	5155	289
<b>Commercial Total</b>	<b>7.1</b>	<b>7,188</b>	<b>1,068</b>	<b>8,254</b>	<b>7,102</b>	<b>398</b>
<b>Hospitality</b>	<b>No of keys</b>					
<b>Hospitality Total</b>	<b>588</b>	<b>2,686</b>	<b>543</b>	<b>2,143</b>	<b>1,588</b>	<b>89</b>
<b>Residential</b>	<b>Saleable area (msf)</b>					
<b>Residential Total</b>	<b>3.4</b>	<b>1,159</b>	<b>33</b>	<b>1,126</b>	<b>1,126</b>	<b>63</b>
<b>Cash Equivalents</b>					<b>1,360</b>	<b>76</b>
<b>Grand Total</b>					<b>23,496.5</b>	<b>1,316</b>
<b>Rounded Off target price</b>						<b>1,320</b>

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 9: Profit and loss statement ₹ crore

₹ crore	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>1,073.3</b>	<b>1,483.5</b>	<b>2,308.4</b>	<b>2,850.1</b>
Other Income	92.3	74.4	79.2	83.2
Total revenues	1,165.6	1,557.9	2,387.6	2,933.2
Raw Material Expenses	76.9	103.0	127.0	156.8
Employee Cost	112.5	156.9	184.7	228.0
Other Expenditure	389.7	489.6	769.4	884.3
Total Operating Expenditure	579.1	749.6	1,081.1	1,269.1
<b>EBITDA</b>	<b>494.2</b>	<b>733.9</b>	<b>1,227.4</b>	<b>1,581.0</b>
Interest	347.8	294.5	348.4	361.2
Depreciation	209.4	185.9	226.3	303.6
<b>PBT</b>	<b>29.2</b>	<b>328.0</b>	<b>731.9</b>	<b>999.3</b>
Tax	(4.7)	80.1	184.4	249.8
<b>Reported PAT</b>	<b>52.6</b>	<b>237.4</b>	<b>494.5</b>	<b>627.1</b>
<b>EPS</b>	<b>2.9</b>	<b>13.3</b>	<b>27.7</b>	<b>35.1</b>

Source: Company, ICICI Direct Research

### Exhibit 10: Cash flow statement ₹ crore

₹ crore	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>52.6</b>	<b>237.4</b>	<b>494.5</b>	<b>627.1</b>
Depreciation	209.4	185.9	226.3	303.6
Interest paid	347.8	294.5	348.4	361.2
Cash Flow before wc changes	516.9	767.0	1,306.6	1,664.1
Net Increase in Current Assets	1.7	(28.1)	(441.6)	(432.3)
Net Increase in Current Liabilities	(94.4)	99.4	509.6	324.3
<b>Net cash flow from op. activities</b>	<b>436.6</b>	<b>780.6</b>	<b>1,190.2</b>	<b>1,306.3</b>
Purchase of Fixed Assets	(744.2)	(1,259.2)	(1,707.7)	(1,123.3)
(Purchase)/Sale of Investments	(1,018.5)	(3,582.5)	-	-
<b>Net cash flow from inv. activities</b>	<b>(585.2)</b>	<b>(2,929.5)</b>	<b>(802.7)</b>	<b>(1,118.1)</b>
Proceeds from Long Term Borrowir	(181.2)	41.3	393.3	175.4
Interest paid	(368.0)	(279.5)	(348.4)	(361.2)
<b>Net cash flow from fin. activities</b>	<b>521.7</b>	<b>2,227.6</b>	<b>(888.6)</b>	<b>(185.4)</b>
Net Cash flow	373.2	78.7	(501.1)	2.8
Opening Cash	140.7	513.9	592.6	91.4
<b>Closing Cash</b>	<b>513.9</b>	<b>592.6</b>	<b>91.4</b>	<b>94.2</b>

Source: Company, ICICI Direct Research

### Exhibit 11: Balance Sheet ₹ crore

₹ crore	FY21	FY22	FY23E	FY24E
Equity Capital	34.4	35.7	35.7	35.7
Reserves & Surplus	4,850.4	6,546.8	7,007.7	7,635.2
Networth	4,884.8	6,582.5	7,043.4	7,670.9
Total Debt	4,062.6	4,379.5	4,772.8	4,948.2
Other financial liabilities	156.7	117.4	182.8	225.6
Deferred Tax Liability	2.1	4.8	4.8	4.8
<b>Source of Funds</b>	<b>10,425</b>	<b>13,513</b>	<b>13,591</b>	<b>14,564</b>
Gross Block	8,450.2	8,937.6	10,774.9	13,197.9
Less: Accumulated Dep	1,550.5	1,736.4	1,962.6	2,266.2
Net Block	6,899.7	7,201.3	8,812.2	10,931.7
Capital WIP	1,274.0	2,048.6	1,919.1	619.3
Total Fixed Assets	8,173.6	9,249.9	10,731.3	11,551.1
Investments	474.9	493.2	493.2	493.2
Inventories	768.2	749.8	948.7	1,171.3
Trade Receivables	295.0	279.9	316.2	390.4
Loans & Advances	15.0	88.8	138.1	170.5
Cash & Bank Balances	513.9	592.6	91.4	94.2
Other Current Assets	325.9	282.5	439.6	542.7
Total Current Assets	2,017.1	3,817.7	2,858.1	3,293.3
Trade Payable	84.7	129.9	202.1	249.5
Provisions	85.5	156.8	231.4	270.1
Other Current Liabilities	859.6	535.0	832.5	1,027.8
Total Current Liabilities	1,029.9	821.7	1,266.0	1,547.4
Net Current Assets	987.2	2,996.0	1,592.2	1,745.8
<b>Application of Funds</b>	<b>10,425</b>	<b>13,514</b>	<b>13,592</b>	<b>14,565</b>

Source: Company, ICICI Direct Research

### Exhibit 12: Key ratios

₹ crore	FY21	FY22	FY23E	FY24E
<b>Per Share Data</b>				
Reported EPS	2.9	13.3	27.7	35.1
Cash EPS	14.7	23.7	40.4	52.1
BVPS	273.6	368.7	394.5	429.7
<b>Operating Ratios</b>				
EBITDA / Net Sales	46.0	49.5	53.2	55.5
PAT / Net Sales	4.9	16.0	21.4	22.0
<b>Return Ratios</b>				
RoE	1.1	3.6	7.0	8.2
RoCE	3.6	4.6	7.9	9.3
RoIC	3.7	6.7	10.2	10.6
<b>Valuation Ratios</b>				
EV / EBITDA	46.8	29.5	19.1	14.9
P/E	373.7	82.8	39.8	31.4
EV / Net Sales	21.5	14.6	10.1	8.3
Market Cap / Sales	18.3	13.3	8.5	6.9
Price to Book Value	4.0	3.0	2.8	2.6
<b>Turnover Ratios</b>				
Asset turnover	0.1	0.1	0.2	0.2
Gross Block Turnover	0.1	0.2	0.2	0.2
<b>Solvency Ratios</b>				
Net Debt / Equity	0.7	0.3	0.5	0.5
Current Ratio	1.4	1.7	1.5	1.5
<b>Quick Ratio</b>	<b>0.6</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</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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