Phoenix Mills (PHOMIL)

CMP: ₹ 1312 | Target: ₹ 1630 (24%) | Target Period: 12 months | **BUY**

August 14, 2022

Strong consumption recovery across malls …

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 operational in commercial segment and plans to add ~5 mn sq ft

Q1FY23 Results: PML reported a strong operating performance.

- Reported revenues grew ~181% YoY to ₹ 574.4 crore, driven by retail portfolio as retail revenues grew by ~2.5x YoY at ₹ 408.6 crore while hospitality revenues were up by 5.4x YoY at ₹ 95.9 crore. Retail rental reached ₹ 322.4 crore, at ~124% of Q1FY20 (pre-Covid level) and ~113% on a like-to-like basis. Consumption in Q1FY23 was ~123% of Q1FY20 (pre-Covid) and ~111% on a like to like basis
- Reported EBITDA margins were up 760 bps QoQ to 56.2%, with operating leverage kicking in. EBITDA at ₹ 322.9 crore, was up 324% YoY and 34% QoQ. Adjusted PAT at ₹ 161.9 crore was up 54.5% QoQ

What should investors do? PML's share price has grown at 19.5% CAGR over the past five years (from ~₹ 539 in August 2017 to ~₹ 1312 levels in August 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

Target Price and Valuation: We value PML at ₹ 1630/share as we assign 20% premium to NAV given the strategic inorganic expansion plans in place.

Key triggers for future price performance:

- Focused on core competence in retail malls; retail GLA of ~6 mn sq ft under development to aid growth. Over the medium term, we expect retail rental income to grow at a CAGR of ~16% to ₹ 2157 crore in FY20-25E
- Strong addition pipeline in the commercial segment, which is likely to expand to ~7 msf in three to four 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 ₹ 595

The Phoenix Mills Limited

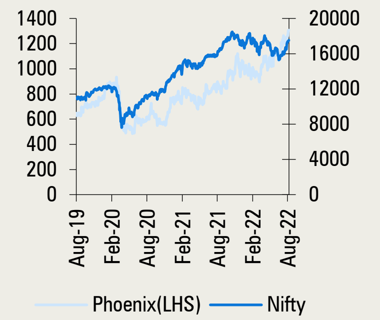
Particulars

Particular	Amount (₹ crore)
Market Capitalization	23,425
Total Debt (FY22)	4,380
Cash (FY22)	593
EV	27,212
52 week H/L (₹)	1399 / 793
Equity capital	35.7
Face value	₹ 2

Shareholding pattern

	Dec-21	Jan-22	Mar-22	Jun-22
Promoters	45.4	47.3	47.3	47.3
DII	18.0	17.1	16.7	16.2
FIIs	31.6	30.6	30.7	31.6
Other	4.9	4.9	5.3	4.9

Price Chart



Key Risks

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

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Result Update

ICICI Securities – Retail Equity Research

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%	2,580.6	3,198.7	47%
EBITDA (₹ crore)	967.1	494.2	733.9	-3%	1,507.3	1,893.9	61%
EBITDA margin (%)	49.8	46.0	49.5		58.4	59.2	
Adj. Net Profit (₹ crore)	327.0	52.6	237.4	7%	663.9	839.8	88%
Adj. EPS (₹)	21.4	2.9	13.3		37.2	47.0	
P/E (x)	60.0	445.2	98.7		19.2	27.9	
EV/EBITDA (x)	28.4	54.4	34.6		17.6	14.0	
Price / Book (x)	5.4	4.8	3.6		3.0	2.7	
RoCE (%)	8.6	3.6	4.6		9.5	10.8	
RoE (%)	8.8	1.1	3.6		8.6	9.9	

Source: Company, ICICI Direct Research

Key business highlight and outlook

- **Retail Properties KPIs**: Consumption across most categories has exceeded pre-Covid-19 levels and has improved to ₹ 2,190.5 crore during Q1FY23 (123% of Q1FY20) largely driven by increase in mall operations and resumption in F&B activities. **Ex of Phoenix Palassio's (Lucknow) contribution (which opened in July 2020), Q1FY23 consumption was 111% of Q1FY20.** Additionally, **the momentum in consumption remained healthy during July 2022 (at ₹ 792 crore; 133% of July 2019 and at 121% on like to like basis) benefited from end-of-season sale and revival of promotional activities and events across its malls. Also, Q1FY23 rental income was at 124% of Q1FY20 (₹ 322.4 crore). Further, retail collections remained strong for Q1FY23 with collections of ₹ 525.3 crore (vs. ₹ 476.2 crore in Q4FY22). Going forward, the management expects gained momentum in consumption/ collection levels to continue with a) improving demand and b) normalisation in business operations, c) sustained consumption growth, d) new trading areas turning operational across existing malls. With these, the management believes consumptions will surpass ₹ 9,000 crore during FY23. Further, rental growth is also expected to move higher than consumption growth during FY23 (to stabilise from H2FY24 onwards and move in tandem with consumption). Also, collection is likely to remain strong at ₹ 500 crore on a quarterly basis**

- **Expansion strategy in retail business**: PML has set a **target to add ~1 mn sq ft of GLA each year post FY25 and is looking for greenfield opportunities in various regions including Kolkata, Surat, Chandigarh, Hyderabad among others).** In line with that, the company has signed **an in-principle closure for land located at Surat**. However, the expected land deal in Jaipur did not go through due to disagreement in price. As per the management, **the cost to build a mall at targeted cities is expected to remain in the range of ₹ 1,200-1,500 crore**. Funding would be either solely by PML or with joint venture partner – GIC

- **Commercial KPIs**: In the commercial business, **Phoenix's office portfolio remained robust with revenues during Q1FY23 improving to ₹ 40.3 crore (vs 36.5 crore during Q1FY22. Collection efficiency was at ~95%.** Among major assets, Fountain head Pune tower 1 (total area: 0.17 mn sq ft) is fully 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 has been completed and occupancy certificate was received in December 2021. Total 0.02 mn sq ft area is leased currently. Overall, revenue from Fountainhead – Tower 1 & 2 was at ₹ 83 crore (up 69.4% YoY). **In terms of leasing, the company continues to witness strong leasing traction during Q1FY23 and achieved gross leasing of 1.9 lakh sq ft (~1.3 lakh sq ft is new leasing and ~0.6 lakh sq ft is renewal leasing). Going forward, the company expects leasing momentum to continue with string demand for commercial space**

- **Residential business**: The residential segment reported revenues of ₹ 29.6 crore during Q1FY23 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 ₹ 70.4 crore, ₹ 53.6 crore during Q1FY23. Further, the company closed sales of ₹ 30 crore during July-August 2022, taking YTDFY23 residential sales to ₹ 100 crore. **Going forward, the company is witnessing healthy demand with faster conversions backed by effective digital marketing efforts and various schemes and offers**

- **Hospitality portfolio**: **Hospitality business revenues improved to ₹ 95.9 crore during Q1FY23 (vs. ₹ 15.1 crore reported in Q1FY22) with higher occupancy and improved average room rentals (ARR) with uptick in social events, revival in corporate travels and pickup in F&B segments**. Portfolio-wise, St Regis average occupancy remained elevated at 85% during Q1FY23 (vs. 30% in Q1FY22). Additionally, ARR improved from ₹ 6,229 in Q1FY22 to ₹ 11,997 in Q1FY23. With improved ARR and occupancy, revenue improved to ₹ 83 crore during Q1FY23 (vs. 13 crore in Q1FY22). Further, improved revenue and various cost rationalisation exercises has translated into 38% EBITDA margin (vs. operational loss in Q1FY22). Further, room occupancy and ARR has remained elevated at 81% and ₹ 10.796, respectively, in July 2022 and is likely to remain at an elevated level with resumption of foreign travel, domestic corporate travel, social events and staycations. Also, the company expects venues at the hotel's 38th floor to start generating revenues (were under renovation) in the coming month, which is likely to further add substantially to monthly revenue run rate. In Agra Courtyard Marriot, average occupancy witnessed improvement to 62% in Q1FY23, 72% in April 2022 (vs. 17% in Q1FY22). ARR improved from ₹ 3,428 in Q1FY22 to ₹ 3,733 in Q1FY23 with ARR staying elevated at ₹ 3,673 in July 2022

- **Debt**: Gross debt as on June 30, 2022 was at ₹ 4,186.5 crore (down ₹ 193 crore QoQ). Effectively, net debt was at ₹ 2,009.4 crore. Average cost of borrowing was at 7.45% in June 2022 (vs. 7.3% in March 2022) whereas lowest rate on borrowing was at 6.95%. Going forward, the company expects borrowing cost to increase in the near term with banks likely to pass rate hikes. **Overall the increase in cost of debt would be 110-115 bps over FY22-end average interest rate (lower than ~140 bps repo rate hike) as PML has ~30% of debt portfolio, which can be refinanced during H2FY23, in-turn, likely to benefit company (with 30 bps) in increasing rate scenario**
- **Lease status in under-construction malls:** a) Phoenix Citadel (Indore): to start operation during H2FY23; pre-lease commitments reached ~83% by Q1FY23-end, b) Palladium (Ahmedabad): to begin during H2FY23; ~98% of retail GLA pre-leased by Q1FY23-end, c) Phoenix Millennium (Wakad): expected to start operation during H1FY24; commitments reached ~73% by Q1FY22-end, and d) Phoenix Mall of Asia (Hebbal, Bangalore): to begin operation by H1FY24; ~76% 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 began piling work during June 2022**
- **Kolkata project update**: Demolition work for on-site structure has commenced with receipt of all necessary approvals for building plans, environmental clearance and consent to establish. **The company expects to commence construction soon**
- **Capex:** The company has **incurred capex of ₹ 273.9 crore during Q1FY23 and expects elevated level of capex, going forward, with many malls at the construction stage.**

PML remains a quasi-play on India's consumption story, given the quality of assets, healthy balance sheet and 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 ~16% to ₹ 2157 crore in FY20-25E. We maintain BUY rating with a revised SoTP based target price of ₹ 1630/share. Given that strategic inorganic expansion is now lined up, we now assign 20% premium to NAV instead of 1x BV to cash earlier, with value add potential in sight.

Exhibit 1: Variance Analysis

Year	Q1FY23	Q1FY23E	Q1FY22	YoY (Chg %)	Q4FY22	QoQ (Chg %)	Comments
Income from Operation	574.4	523.0	204.3	181.2	495.4	15.9	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	23.5	25.0	12.1	93.8	24.4	-4.0	
Total raw material Expenses	24.9	36.0	17.2	44.4	33.9	-26.7	
Employee cost	50.0	42.0	33.0	51.4	41.4	20.9	
Other expenditure	146.6	150.0	61.0	140.5	158.6	-7.6	
EBITDA	322.9	274.0	76.1	324.3	241.1	33.9	
EBITDA Margin (%)	56.2	52.4	37.3	1896 bps	48.7	755 bps	
Depreciation	50.0	46.0	48.1	4.0	44.1	13.4	
Interest	74.1	78.0	72.3	2.4	78.3	-5.5	
PBT	779.1	175.0	-32.2	-2,522.4	143.1	444.5	
Taxes	34.1	40.0	2.6	1,202.8	25.7	32.3	
Reported PAT	718.7	125.0	-26.2	-2,842.9	104.8	585.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22	FY23E			FY24E			
(₹ Crore)	New	Old	New	% Change	Old	New	% Change	Comments
Revenue	1483.5	2308.4	2580.6	11.8	2,850.1	3198.7	12.2	Incorporate 100% revenues from PMC Chennai and also bake in higher rentals cross given the robust consumption
EBITDA	733.9	1227.4	1507.3	22.8	1,581.0	1893.9	19.8	
EBITDA Margin (%)	49.5	53.2	58.4	524 bps	55.5	59.2	374 bps	
Adj. PAT	237.4	494.5	663.9	34.3	627.1	839.8	33.9	
EPS (₹)	13.3	27.7	68.4	34.3	35.1	47.0	33.9	

Source: Company, ICICI Direct Research

Company Analysis

Exhibit 3: Retail income trend

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY Growth (%)	QoQ Growth (%)
Rental Income (₹ crore)							
HSP & Palladium	29.3	46.6	72.5	73.6	94.5	222.5	28.4
PMC Mumbai	8.8	17.7	26.1	28.2	37.4	325.0	32.6
PMC Bangalore	11.2	35.1	38.6	37.1	46.0	310.7	24.0
PMC & Palladium Chennai*	14.9	39.3	41.8	34.6	49.4	231.5	42.8
PMC Pune	10.9	22.1	43.2	41.0	52.3	379.8	27.6
Phoenix Pallasio	7.2	24.5	24.8	23.8	27.9	287.5	17.2
Phoenix United Lucknow	2.8	7.4	7.7	6.8	9.0	221.4	32.4
Phoenix United Bareily	1.9	5.8	6.0	5.6	5.8	205.3	3.6

Source: Company, ICICI Direct Research

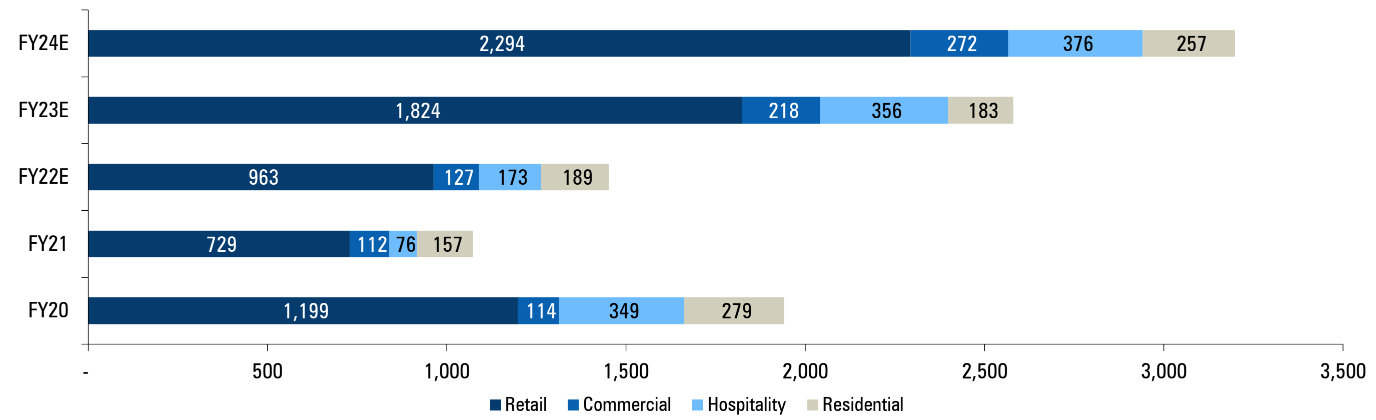
Exhibit 4: Commercial portfolio

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	110
The Centrium	Mumbai	0.28	0.16	0.12	0.07	78
Art Guild House	Mumbai	0.80	0.17	0.63	0.51	87
Phoenix House	Mumbai	0.09	-	0.09	0.07	180
Fountainhead - Tower 1	Pune	0.17	-	0.17	0.17	80
Fountainhead - Tower 2	Pune	0.25	-	0.25	0.13	70
Fountainhead - Tower 3	Pune	0.41	-	0.41	0.02	69
Total Operational		**2.45**	**0.46**	**1.99**	**1.13**	

Source: Company, ICICI Direct Research

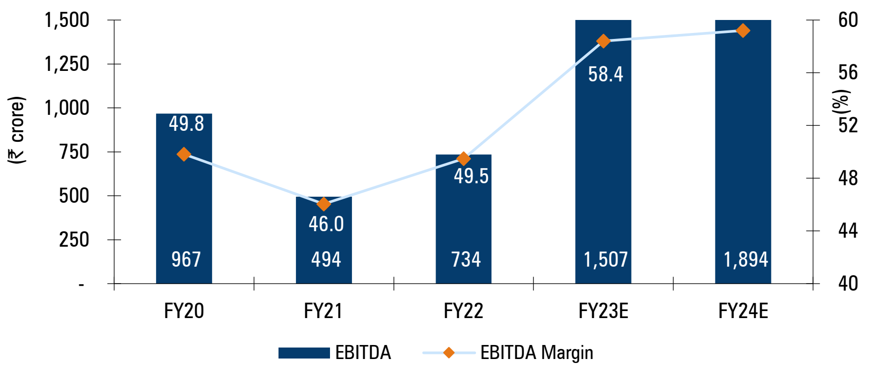
Financial story through charts

Exhibit 5: Revenue trend



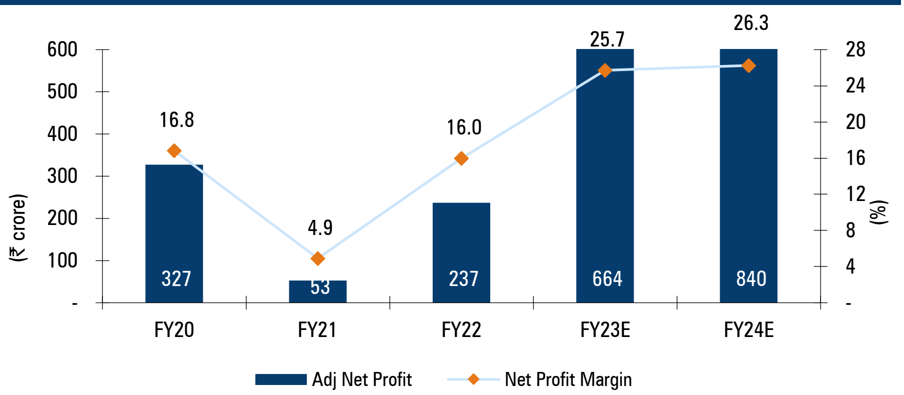
Source: Company, ICICI Direct Research

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 and 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 ~16% to ₹ 2157 crore in FY20-25E. We maintain BUY rating with a revised SoTP based target price of ₹ 1630/share. Given that strategic inorganic expansion is now lined up, we now assign 20% premium to NAV instead of 1x BV to cash earlier, with value add potential in sight.

Exhibit 8: Valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Value (₹ crore)	Value/ share (₹/ share)
Retail	**Leasable area (msf)**					
Retail Operational	7.0	17,798.3	3,148.3	14,650.0	12259	687
Retail under construction	5.9	5138	1640	4282	2171	122
Retail Total	**12.9**	**22,936**	**4,788**	**18,932**	**14,430**	**808**
Commercial	**Leasable area (msf)**					
Commercial Operational	2.0	2369		2310	1858	104
Commercial under construction	5.1	4819	1068	5944	5155	289
Commercial Total	**7.1**	**7,188**	**1,068**	**8,254**	**7,013**	**393**
Hospitality	**No of keys**					
Hospitality Total	**588**	**2,730**	**517**	**2,213**	**1,632**	**91**
Residential	**Saleable area (msf)**					
Residential Total	**3.4**	**1,162**	**30**	**1,131**	**1,131**	**63**
Total					**24,206.9**	**1,355.8**
Premium for Growth (20%)					**4,841**	**271**
Grand Total					**29,048.3**	**1,627**
Rounded Off target price						**1,630**

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement ₹ crore

₹ crore	FY21	FY22	FY23E	FY24E
Net Sales	**1,073.3**	**1,483.5**	**2,580.6**	**3,198.7**
Other Income	92.3	74.4	79.2	83.2
Total revenues	1,165.6	1,557.9	2,659.8	3,281.9
Raw Material Expenses	76.9	103.0	141.9	175.9
Employee Cost	112.5	156.9	206.4	255.9
Other Expenditure	389.7	489.6	724.9	873.0
Total Operating Expenditure	579.1	749.6	1,073.3	1,304.8
EBITDA	**494.2**	**733.9**	**1,507.3**	**1,893.9**
Interest	347.8	294.5	348.6	361.4
Depreciation	209.4	185.9	227.0	304.3
PBT	**29.2**	**328.0**	**1,567.7**	**1,311.3**
Tax	(4.7)	80.1	235.2	327.8
Reported PAT	**52.6**	**237.4**	**1,220.6**	**839.8**
EPS	**2.9**	**13.3**	**68.4**	**47.0**

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

₹ crore	FY21	FY22	FY23E	FY24E
Profit after Tax	**52.6**	**237.4**	**1,220.6**	**839.8**
Depreciation	209.4	185.9	227.0	304.3
Interest paid	347.8	294.5	348.6	361.4
Cash Flow before wc changes	516.9	767.0	2,143.2	1,977.0
Net Increase in Current Assets	1.7	(28.1)	(658.8)	(493.4)
Net Increase in Current Liabilities	(94.4)	99.4	680.4	370.4
Net cash flow from op. activities	**436.6**	**780.6**	**1,929.7**	**1,526.2**
Purchase of Fixed Assets	(744.2)	(1,259.2)	(1,732.3)	(1,123.3)
(Purchase)/Sale of Investments	(1,018.5)	(3,582.5)	-	-
Net cash flow from inv. activities	**(585.2)**	**(2,929.5)**	**(822.3)**	**(1,112.8)**
Proceeds from Long Term Borrowir	(181.2)	41.3	395.2	175.4
Interest paid	(368.0)	(279.5)	(348.6)	(361.4)
Net cash flow from fin. activities	**521.7**	**2,227.6**	**(957.3)**	**(202.3)**
Net Cash flow	373.2	78.7	150.1	211.2
Opening Cash	140.7	513.9	592.6	742.7
Closing Cash	**513.9**	**592.6**	**742.7**	**953.8**

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	7,663.5	8,487.0
Networth	4,884.8	6,582.5	7,699.2	8,522.7
Total Debt	4,062.6	4,379.5	4,774.7	4,950.0
Other financial liabilities	156.7	117.4	204.3	253.2
Deferred Tax Liability	2.1	4.8	4.8	4.8
Source of Funds	**10,425**	**13,513**	**14,334**	**15,536**
Gross Block	8,450.2	8,937.6	10,808.8	13,231.9
Less: Accumulated Dep	1,550.5	1,736.4	1,963.3	2,267.7
Net Block	6,899.7	7,201.3	8,845.5	10,964.2
Capital WIP	1,274.0	2,048.6	1,909.7	609.9
Total Fixed Assets	8,173.6	9,249.9	10,755.2	11,574.1
Investments	474.9	493.2	493.2	493.2
Inventories	768.2	749.8	1,060.5	1,314.5
Trade Receivables	295.0	279.9	353.5	438.2
Loans & Advances	15.0	88.8	154.4	191.4
Cash & Bank Balances	513.9	592.6	742.7	953.8
Other Current Assets	325.9	282.5	491.4	609.1
Total Current Assets	2,017.1	3,817.7	3,726.6	4,431.2
Trade Payable	84.7	129.9	225.9	280.0
Provisions	85.5	156.8	258.7	303.1
Other Current Liabilities	859.6	535.0	930.7	1,153.6
Total Current Liabilities	1,029.9	821.7	1,415.3	1,736.7
Net Current Assets	987.2	2,996.0	2,311.4	2,694.5
Application of Funds	**10,425**	**13,513**	**14,334**	**15,536**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios

₹ crore	FY21	FY22	FY23E	FY24E
Per Share Data				
Reported EPS	2.9	13.3	68.4	47.0
Adjusted EPS	2.9	13.3	37.2	47.0
BVPS	273.6	368.7	431.2	477.3
Operating Ratios				
EBITDA / Net Sales	46.0	49.5	58.4	59.2
PAT / Net Sales	4.9	16.0	25.7	26.3
Return Ratios				
RoE	1.1	3.6	8.6	9.9
RoCE	3.6	4.6	9.5	10.8
RoIC	3.7	6.7	13.0	13.1
Valuation Ratios				
EV / EBITDA	54.4	34.6	17.6	14.0
P/E	445.2	98.7	19.2	27.9
EV / Net Sales	25.0	17.1	10.3	8.3
Market Cap / Sales	21.8	15.8	9.1	7.3
Price to Book Value	4.8	3.6	3.0	2.7
Turnover Ratios				
Asset turnover	0.1	0.1	0.2	0.2
Gross Block Turnover	0.1	0.2	0.2	0.2
Solvency Ratios				
Net Debt / Equity	0.7	0.3	0.4	0.4
Current Ratio	1.4	1.7	1.5	1.5
Quick Ratio	**0.6**	**0.8**	**0.7**	**0.7**

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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