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Company update

Real Estate

Target price: Rs1,638

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	47.3	47.3	47.3
Institutional investors	48.4	48.2	48.3
MFs and other	16.8	16.3	15.8
FIs/Banks/Ins	0.4	0.5	0.3
FIIIs	31.2	31.4	32.2
Others	4.3	4.5	4.4

ESG disclosure score

Year	2020	2021	Chg
ESG score	32.9	39.0	6.1
Environment	2.5	17.6	15.1
Social	17.6	20.6	3.0
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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INDIA

The Phoenix Mills

BUY

Maintained

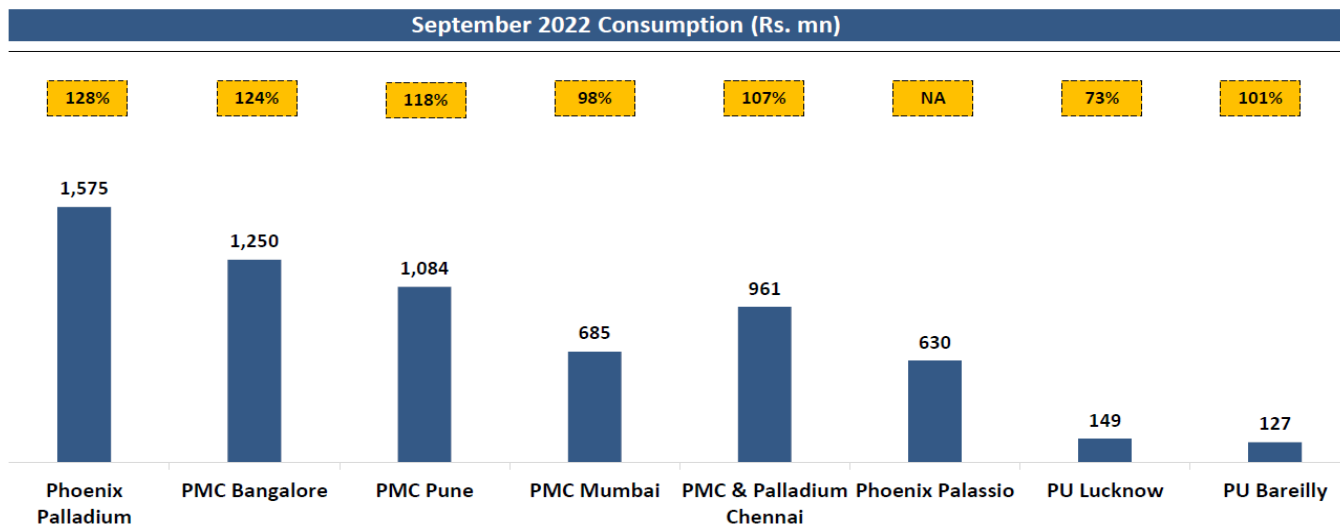
Double digit consumption growth sustains in Sep'22 **Rs1,418**

The Phoenix Mills' (PHNX) saw Sep'22 like-to-like (LTL) consumption across malls at Rs5.8bn or 115% of Sep'19 levels and mirrors the Jul'22 LTL consumption growth which was at 120% of Jul'19 levels and Aug'22 LTL consumption growth which was at 114% of Aug'19 levels. In Q1FY23 (Apr-Jun'22), LTL consumption growth across malls stood at 111% of Apr-Jun'19 (Q1FY20) levels which translated into Q1FY23 retail LTL EBITDA of Rs2.9bn or 115% of Q1FY20 levels. Similarly, in Q2FY23, LTL consumption growth stood at 118% of Q2FY20 levels. Owing to continued consumption strength, we model for FY23E rental income of Rs13.7bn (Rs12.2bn on LTL basis vs. Rs10.3bn in FY20). With Indore and Ahmedabad malls to open in H2FY23E and Pune (Wakad) and Bengaluru (Hebbal) in FY24E, we expect 17% rental income CAGR over FY20-25E. We reiterate our BUY rating with an unchanged target price of Rs1,638/share based on 20% premium to our Mar'23E NAV of Rs1,371/share which includes increase in Palladium, Mumbai leasable area and considers growth opportunities from new office capex and new malls (including Surat). 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 Q3FY22, LTL consumption across PHNX's malls stood at Rs18.4bn or 89% of Q3FY20 levels. In Jan'22, LTL consumption stood at 70% of Jan'20 levels in spite of Omicron disruption in mall operations for the month, and in Feb'22, consumption levels were back to 94% of pre-Covid levels. In Mar'22, consumption across malls stood at Rs5.6bn or 105% of Mar'19 levels on LTL basis (Mar'20 saw mall shutdowns hence not comparable) while Q4FY22 consumption of Rs14.8bn stood at 91% of Q4FY19 levels on LTL basis. **This momentum carried forward into Q1FY23 (Apr-Jun'22) with LTL consumption across malls at Rs19.8bn or 111% of Apr-Jun'19 (Q1FY20) levels and has continued in Q2FY23 (Jul-Sep'22) with LTL consumption of Rs19.9bn or 118% of Jul-Sep'19 (Q2FY20) levels.** With a strong bounce back in consumption across categories in Q1FY23, retail rental collections (including CAM) increased by 10% QoQ to Rs5.3bn with similar rental collections of Rs5.3bn sustaining in Q2FY23 as well. While the consumption base for FY23E is expected to see a one-time reset in consumption/rentals at ~15% over pre-Covid levels (~5% CAGR over FY20-23E), we model for 5% LTL rental CAGR from FY24E and new malls becoming operational should drive rental growth.
- **Estimated rental income CAGR of 17% over FY20-25E:** PHNX will have ~13msf operational mall space by FY26 (6.9msf currently operational). We expect PHNX to achieve a 17% rental income CAGR (ex-new Kolkata asset) over FY20-25E, resulting in Rs22.4bn of rental income in FY25E vs. ~Rs10.3bn in FY20. Of the Rs22.4bn of gross rental income in FY25E, PHNX's share is ~77% or Rs17.3bn.

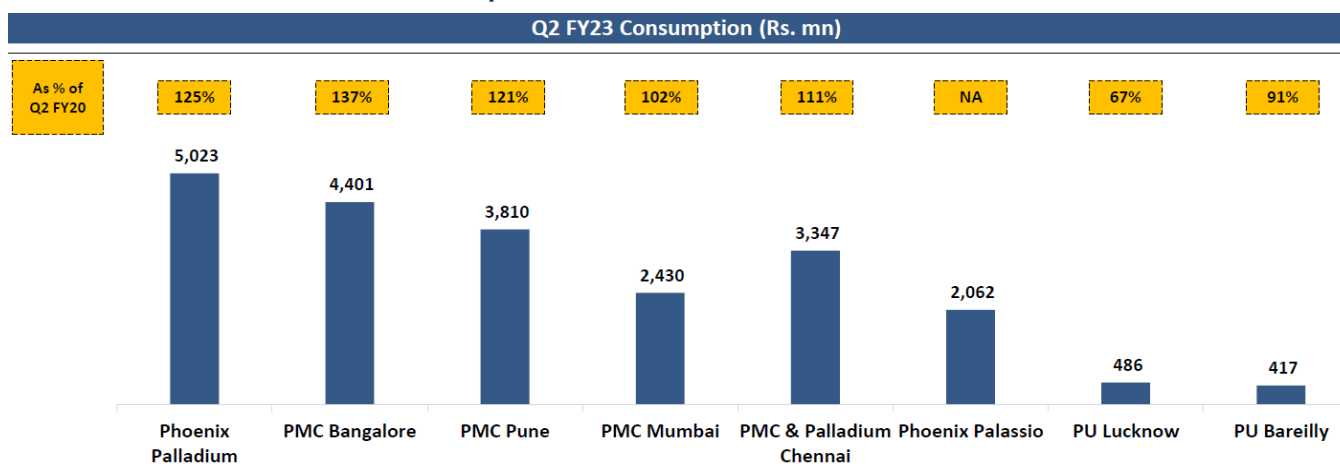
Market Cap	Rs253bn/US\$3.1bn	Year to Mar	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	PHOE.BO / PHNX IN	Revenue (Rs bn)	14.8	26.1	32.5	36.1
Shares Outstanding (mn)	178.6	Rec. Net Income (Rs bn)	2.4	9.3	8.2	9.5
52-week Range (Rs)	1468/884	EPS (Rs)	13.9	54.1	47.8	55.6
Free Float (%)	52.7	% Chg YoY	312.4	290.5	(11.8)	16.4
FII (%)	32.2	P/E (x)	102.3	26.2	29.7	25.5
Daily Volume (US\$'000)	3,814	P/B (x)	3.7	3.3	3.0	2.7
Absolute Return 3m (%)	20.0	EV/E (x)	38.2	18.7	14.3	12.5
Absolute Return 12m (%)	48.5	Dividend yield (%)	0.2	0.2	0.2	0.2
Sensex Return 3m (%)	9.4	RoCE (%)	5.9	9.7	11.2	11.9
Sensex Return 12m (%)	(0.9)	RoE (%)	3.8	12.9	10.1	10.7

Chart 1: Sep'22 like-to-like consumption at 115% of Sep'19 levels*



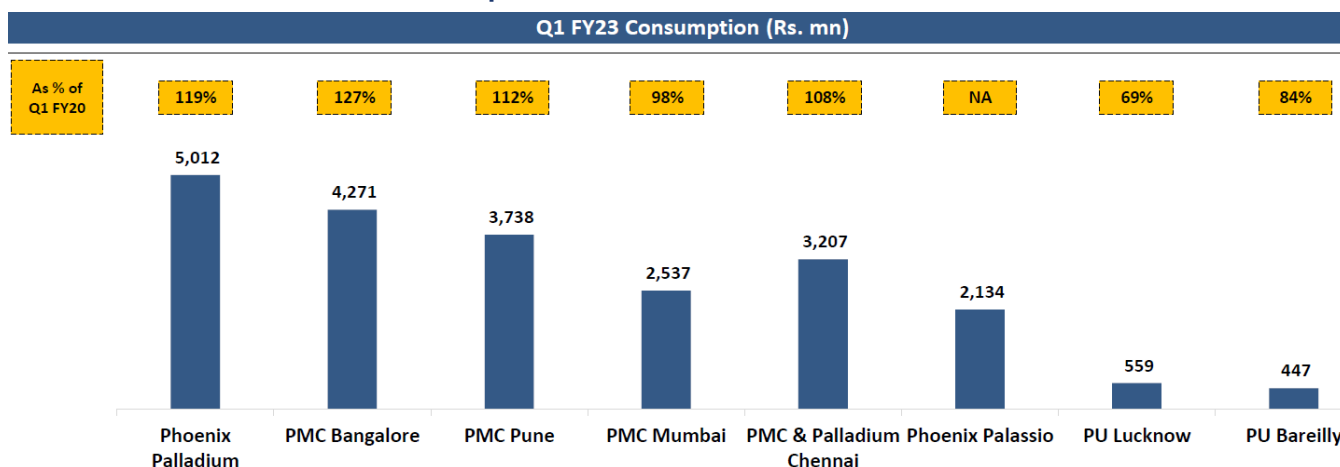
Source: Company data, I-Sec research, *Sep'22 mall wise consumption as % of Sep'19 consumption levels, Phoenix Palassio commenced operations in FY21

Chart 2: Q2FY23 like-to-like consumption at 118% of Q1FY20 levels



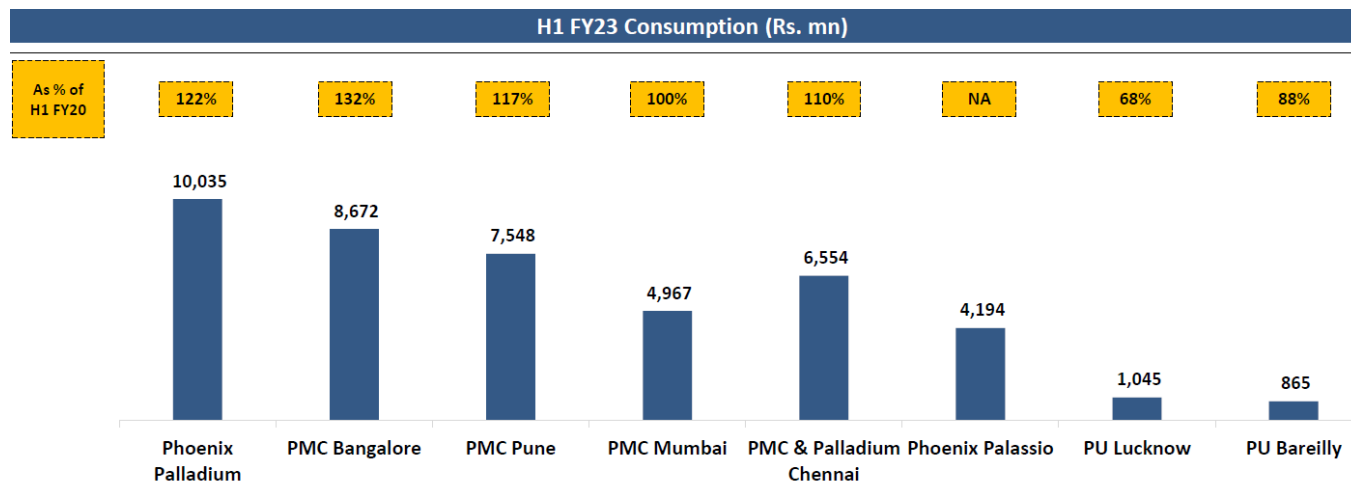
Source: Company data, I-Sec research, *Phoenix Palassio commenced operations in FY21

Chart 3: Q1FY23 like-to-like consumption at 111% of Q1FY20 levels



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

Chart 4: H1FY23 like-to-like consumption at 114% of Q4FY19 levels



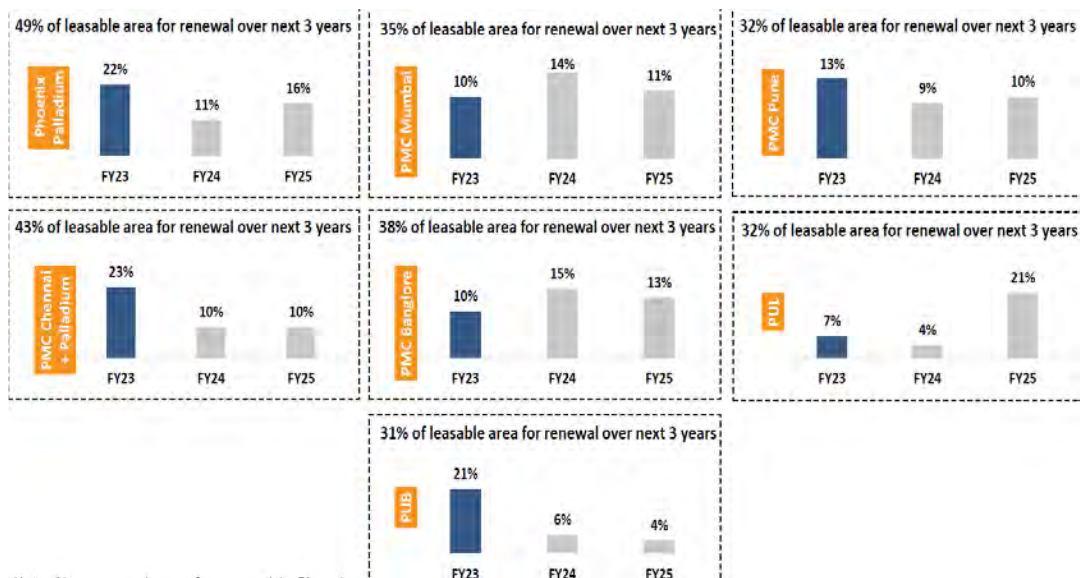
Source: Company data, I-Sec research, *Phoenix Palassio commenced operations in FY21

Table 1: Occupancy and trading density trend across major malls*

	Leased Occupancy		Trading Occupancy		Trading Density (Rs. Per sq. ft. pm)	
	Jun-22	Sep-22	Jun-22	Sep-22	Q1FY23	Q2FY23
Phoenix Palladium	97%	98%	86%	89%*	3,330	3,139
Phoenix Marketcity Bangalore	95%	97%	91%	94%	2,351	2,383
Phoenix Marketcity Pune	92%	92%	85%	85%	1,852	1,887
Phoenix Marketcity Mumbai	95%	97%	86%	85%	1,220	1,224
Phoenix Marketcity and Palladium Chennai	93%	94%	85%	86%	1,602	1,668
Phoenix Palassio	97%	98%	91%	93%	1,296	1,213


Source: Company data, I-Sec research, *due to new area addition, Gross Leasable Area (GLA) has increased to ~0.92msf from ~0.77msf (FY22). The stores which are a part of the increased GLA are in the process of opening

Chart 5: Renewal schedule across operational malls (% of total leasable area)



Source: Company data, I-Sec research

Chart 6: Status of under-construction malls

	Phoenix Citadel, Indore	Palladium, Ahmedabad	Phoenix Millennium, Pune	Phoenix Mall of Asia, Bangalore
Proposed GLA	Retail GLA – ~1 msf	Retail GLA – ~0.77 msf	Retail GLA – ~1.1 msf Office GLA – ~1.2 msf	Retail GLA – ~1.2 msf Office GLA – ~1.2 msf
Amount Spent till June 2022 (Rs Mn)	5,625	7,335	6,952	11,622
Status update				
Expected Year of Operation	FY23	FY23	Retail: FY24 Office: FY25	Retail: FY24 Office: FY25
Leasing Status till June 2022	83%	98%	73%	76%

Source: Company data, I-Sec research

Valuations & views

- We like PHNX because it: (1) has a strong brand recall and is the market leader in malls across India, (2) has a strong pipeline of projects and (3) is a derivative play on the Indian consumption story.
- We have valued PHNX on an SoTP basis with a combination of DCF-based NAV on FY23E basis assuming a cap rate of 8% for rental assets.
- **We reiterate our BUY rating with an unchanged target price of Rs1,638/share based on 20% premium to our Mar'23E NAV of Rs1,371/share which includes increase in Palladium, Mumbai leasable area and considers growth opportunities from new office capex and new malls (including Surat).**
- **Key risks to our call are a fresh Covid wave impacting mall consumption and fall in mall occupancies and rentals.**

Table 2: Key historical numbers and assumptions (including new assets)

Year ending March	FY18	FY19	FY20	FY21	FY22	FY23E*	FY24E*	FY25E*
Rental properties								
Net rental income - 100% share (Rs mn)	8,693	9,762	10,275	5,632	7,967	13,718	17,863	22,361
Net rental income - PHNX share (Rs mn)	7,405	8,211	8,643	4,845	6,307	11,544	13,926	17,264

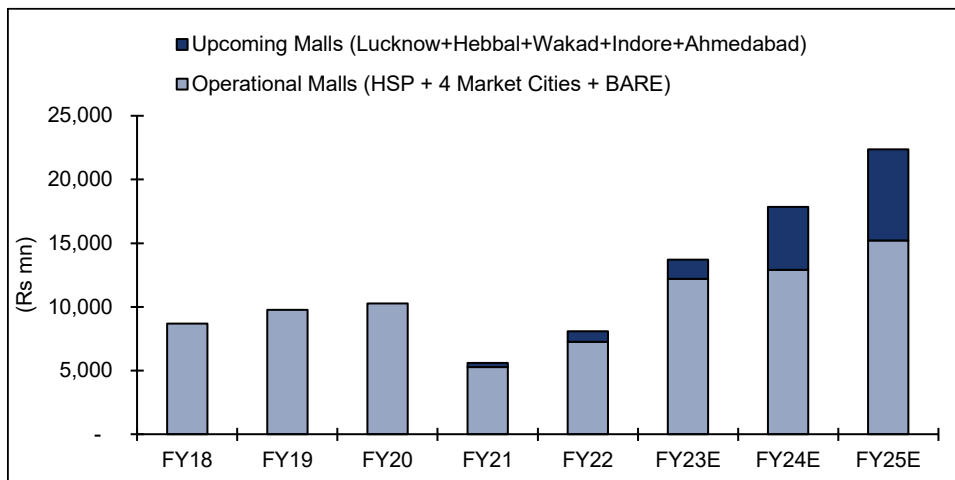
Source: Company data, I-Sec research estimates, *FY23E onwards includes 100% share in Chennai Mall rentals post acquisition in Apr'22

Table 3: SoTP valuation

Project	PHNX FY23E GAV (Rs mn)	Rs/share	% of GAV
High Street Phoenix – Palladium	66,761	390	26.2
High Street Phoenix – Rise – for 64% stake	18,665	109	7.2
Kurla (Offbeat Developers) – for 67% stake	12,945	76	5.1
Pune (Vamona Developers) – for 67% stake	17,578	103	6.9
Bengaluru East (Island Star) – for 51% stake	14,510	85	5.7
Pune Wakad (CPPIB-Island Star) – for 51% stake	6,870	40	2.7
Bengaluru Hebbal (CPPIB-Island Star) – for 51% stake	12,818	75	5.0
Ahmedabad Market City (BSafal) – for 50% stake	5,316	31	2.1
Indore Market City (CPPIB-Island Star) – for 51% stake	5,960	35	2.3
Lucknow – Gomti Nagar Market City – for 100% stake	16,317	95	6.4
Kolkata Market City – for 51% stake (Palladium/Platinum)	3,899	23	1.7
Bengaluru West (Palladium/Platinum)	7,840	46	3.1
Chennai (Classic Mall) – for 100% stake	25,991	152	10.2
St. Regis Hotel (Pallazio)	19,996	117	7.9
BARE (Lucknow & Bareilly)	8,994	53	3.5
Others	10,131	59	4.0
Total GAV	254,592	1,487	100.0
Less: FY23E Net Debt (PHNX economic share)	20,863	122	
FY23E NAV	233,729	1,365	
Add: 20% premium to NAV	46,746	273	
Target Price	280,475	1,638	

Source: I-Sec research estimates

Chart 7: Rental income CAGR of 17% over FY20-25E



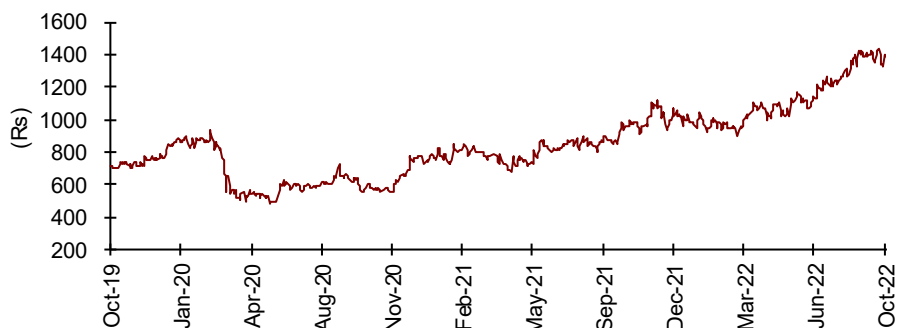
Source: Company data, I-Sec research estimates

Table 4: PHNX - Sensitivity of Target Price to Cap Rate/WACC

Target Price	1,638	WACC (%)				
		9%	10%	11%	12%	13%
Cap Rate (%)	6%	2,087	1,979	1,880	1,788	1,702
	7%	1,933	1,834	1,743	1,659	1,581
	8%	1,815	1,723	1,638	1,561	1,488
	9%	1,722	1,635	1,556	1,483	1,415
	10%	1,646	1,564	1,489	1,420	1,356
	11%	1,584	1,505	1,434	1,368	1,307

Source: I-Sec research estimates

Price chart



Source: Bloomberg

Financial Summary (consolidated)

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

	FY22	FY23E	FY24E	FY25E
Net Sales	14,835	26,136	32,481	36,054
Operating Expenses	7,496	11,592	13,841	15,302
EBITDA	7,339	14,544	18,640	20,752
<i>% margins</i>	49%	56%	57%	58%
Depreciation & Amortisation	1,859	3,319	3,461	3,461
Interest expenses	2,945	3,424	3,576	3,651
Other Income	744	782	821	862
Exceptional items	-	5,568	-	-
PBT	3,281	14,149	12,425	14,502
Less: Taxes	801	2,830	2,485	2,900
PAT before				
Minority/Associate	2,480	11,319	9,940	11,601
Minority/Associate share	(106)	(2,052)	(1,765)	(2,086)
Net Income (Reported)	2,374	9,268	8,175	9,515

Source: Company data I-Sec research, *FY23E onwards includes consolidation of Chennai mall SPV which was an associate earlier

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

	FY22	FY23E	FY24E	FY25E
Assets				
Total Current Assets	23,360	35,084	41,231	49,668
<i>of which cash & cash eqv.</i>	5,926	17,900	24,296	32,983
Total Current Liabilities & Provisions	9,439	9,450	10,316	11,268
Net Current Assets	13,921	25,634	30,915	38,399
Goodwill/Investments	26,232	16,232	18,232	20,232
Net Fixed Assets	72,013	81,568	82,530	79,069
Capital WIP	20,486	27,269	30,489	36,599
Total Assets	1,32,651	1,50,703	1,62,164	1,74,299
Liabilities				
Borrowings	43,795	46,795	47,795	48,795
Equity Share Capital	357	357	357	357
Reserves & Surplus*	65,468	74,255	81,729	90,543
Net Worth	65,825	74,612	82,086	90,900
Minority Interest	24,288	30,552	33,540	35,860
Deferred Taxes	(1,257)	(1,257)	(1,257)	(1,257)
Total Liabilities	1,32,651	1,50,703	1,62,164	1,74,299

Source: Company data I-Sec research

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

	FY22	FY23E	FY24E	FY25E
PBT	3,281	14,149	12,425	14,502
Depreciation	1,859	3,319	3,461	3,461
Non-Cash Adjustments	(912)	(911)	(911)	(911)
Working Capital Changes	713	261	1,116	1,202
Taxes Paid	(801)	(2,830)	(2,485)	(2,900)
Operating Cashflow	4,140	13,989	13,605	15,354
Capital Commitments	(12,271)	(19,658)	(7,642)	(6,111)
Free Cashflow	(8,132)	(5,668)	5,963	9,243
Other investing cashflow	(9)	10,000	(2,000)	(2,000)
Cashflow from Investing Activities	(12,280)	(9,658)	(9,642)	(8,111)
Issue of Share Capital*	26,067	4,000	1,000	-
Inc (Dec) in Borrowings	(805)	3,000	1,000	1,000
Dividend paid	(174)	(481)	(701)	(701)
Cashflow from Financing activities	25,087	6,519	1,299	299
Chg. in Cash & Bank balances	16,947	10,851	5,262	7,542

Source: Company data I-Sec research, *includes equity infusion from CPPIB/GIC in SPVs

Table 8: Key ratios
(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (Rs)				
EPS	13.9	54.1	47.8	55.6
Cash EPS	24.7	41.0	68.0	75.8
Dividend per share (DPS)	2.4	3.5	3.5	3.5
Book Value per share (BV)	384.5	435.9	479.5	531.0
Growth (%)				
Net Sales	38.2	76.2	24.3	11.0
EBITDA	48.5	98.2	28.2	11.3
PAT	312.4	290.5	(11.8)	16.4
Valuation Ratios (x)				
P/E	102.3	26.2	29.7	25.5
P/BV	3.7	3.3	3.0	2.7
EV / EBITDA	38.2	18.7	14.3	12.5
Dividend Yield	0.2	0.2	0.2	0.2
Operating Ratios				
Debt/EBITDA (x)	6.0	3.2	2.6	2.4
Net D/E	0.6	0.4	0.3	0.2
Return Ratios (%)				
RoE	3.8	12.9	10.1	10.7
RoCE	5.9	9.7	11.2	11.9
EBITDA Margins	49.5	55.6	57.4	57.6
Net Income Margins	16.0	35.5	25.2	26.4

Source: Company data I-Sec research

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