Initiating Coverage | Sector: Real Estate

Phoenix Mills

Riding the consumption wave

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Riding the consumption wave

Phoenix Mills (PHNX), a leading retail led mixed use asset developer, operates 11 malls across eight cities in India and three new malls are currently under construction.

Phoenix Mills

BSE Sensex	S&P CNX
57,629	16,988

THE PHOENIX MILLS LIMITED

Stock Info

Bloomberg	PHNX IN
Equity Shares (m)	179
M.Cap.(INRb)/(USDb)	231 / 2.8
52-Week Range (INR)	1620 / 955
1, 6, 12 Rel. Per (%)	5/-2/30
12M Avg Val (INR M)	332
Free float (%)	52.7

Financial Snapshot (INR b)

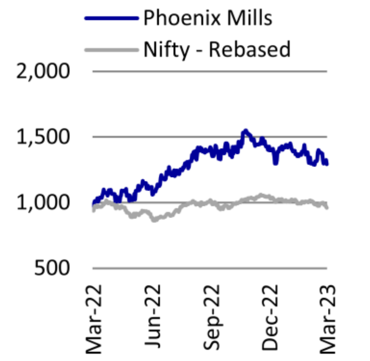
Y/E Mar	FY23E	FY24E	FY25E
Sales	25.9	32.5	39.1
EBITDA	15.6	18.7	24.9
EBITDA Margin (%)	60.1	57.6	63.6
Adj PAT	8.5	8.8	13.4
Cons. EPS (Rs)	47.4	49.4	74.8
EPS Growth (%)	257	4	51
BV/Share (Rs)	441	487	559
Ratios			
Net D/E	0.4	0.3	0.1
RoE (%)	11.7	10.6	14.3
RoCE (%)	11.2	10.6	13.9
Payout (%)	3.2	5.5	4.0
Valuations			
P/E (x)	27.2	26.1	17.2
P/BV (x)	2.9	2.6	2.3
EV/EBITDA (x)	16.6	13.5	9.5
Div Yield (%)	0.2	0.2	0.2

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	47.3	47.3	45.4
DII	19.0	17.6	18.6
FII	29.3	30.6	31.6
Others	4.4	4.5	4.4

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,295 TP: INR1,700 (+31%) Buy

Riding the consumption wave

- **Phoenix Mills (PHNX), a leading retail-led mixed use asset developer, operates 11 malls across eight cities in India and three new malls are currently under construction including one in Kolkata (ninth city). The company also operates few Grade-A standalone offices in Mumbai and Pune and is aiming to build offices on top of/adjacent to its malls to improve the yield on land. PHNX has also built one hotel each in Mumbai and Agra and residential projects in Bengaluru and Chennai.**
- **Post the second wave of Covid, consumption across PHNX's retail portfolio has been reporting a steady recovery, apart from a minor blip in Jan'22 (third wave), and is YTD 27% higher than pre-covid levels. As per Knight Frank, consumption in malls across the top eight cities is expected to register a CAGR of 29% over FY23-28.**
- **PHNX's mall portfolio is expected to increase to 14msf by FY27 from ~9msf as of Mar'23 and its presence would expand to six out of the top eight cities. Hence, the company is likely to be the biggest beneficiary of consumption boom in India. PHNX retail portfolio is expected to report a 32% CAGR in rental over FY23-25.**
- **PHNX has a long-term growth vision in place with an aim to deliver at least 1msf of retail asset every year and is evaluating nine more markets in India. In CPPIB and GIC, PHNX has got the backing from the partners aligned with its growth vision.**
- **Under its mixed-use strategy, it is building offices on top of/adjacent to its existing or upcoming malls, leading to ~4x rise in portfolio to 7msf. Overall, we expect the company to deliver 34% CAGR in EBITDA of rental portfolio over FY23-25. Our SoTP-based TP of INR1,700 indicates an upside potential of 31%. We re-initiate coverage on the stock with a BUY rating.**

Consumption growth back on track; penetration to rise further

- Consumption across PHNX's mall portfolio reported a steady recovery post the second wave of Covid until Jan'22, which was affected due to a minor scare of a Covid third wave. Since Mar'22, the growth is back on track with consumption consistently being 20-25% higher than pre-covid levels.
- As organized retail penetration increases further due to higher disposable income, shopping malls are likely to benefit the most from this shift. As a result, consumption in malls across top eight cities is expected to report a 29% CAGR over FY23-28, as per Knight Frank.

Retail portfolio to grow to 14msf by FY27; expect 32% CAGR in rentals

- As of Mar'23, PHNX has 11 operational malls with a total leasable area of ~9msf, including the recently completed Phoenix Citadel, Indore (1.0msf) and Phoenix Palladium, Ahmedabad (0.8msf).
- With three more malls (Pune, Bengaluru, and Kolkata) under construction, its leasable area is expected to increase to 13msf by FY25. The company recently (Dec'22) acquired a land for developing a 1-msf mall in Surat by FY27.
- With this expansion, the company will have presence in six out of top eight cities and three tier-two cities, and will be a big beneficiary of consumption boom.
- The company has reported a healthy pre-leasing of ~90% for its malls which are expected to be delivered in FY24, and as these malls turn operational, the rental income is expected to report a 32% CAGR over FY23-25 to INR22b.

Mixed-use strategy to improve blended yields

Offices on top of/adjacent to malls is expected to generate a construction yield of 20-25% versus 15-20% for a mall, thereby, improving the blended yields

- Historically, PHNX has been a pure-play retail company with office exposure restricted to some standalone Grade-A offices around Phoenix Palladium, Mumbai and Marketcity, Pune.
- Under its retail-led, mixed-use strategy, it is also building and operating offices on top of/adjacent to its existing and upcoming malls to improve the blended yield of the assets. With the land already paid out for, the office assets will generate 20-25% yield on construction versus 15-20% for a mall.
- The company is planning to build ~5msf of office space across its retail assets over the next five years to increase its office portfolio to ~7msf. These assets are expected to incrementally contribute ~INR8b of rental revenue once stabilized, leading to a CAGR of 32% in office rentals to INR10b over FY22-FY30.

Backing from marquee partners to enable continued scale-up

With the backing of CPPIB and GIC, the company aims to deliver at least 1msf of mall every year.

- In FY18, PHNX partnered with CPPIB for retail-led, mixed-use asset platform that helped the company gear up for its next leg of growth. The company deployed INR16b to acquire land for its ongoing development in Indore, Pune, and Bengaluru. It expanded this partnership for its upcoming mall in Kolkata and office-led mixed use tower (Project rise) besides Phoenix Palladium, Mumbai.
- In FY22, the company entered into a INR15b platform with GIC. In CPPIB and GIC, PHNX has found its right partners with aligned long-term vision, and hence, it targets to develop a 1-msf mall every year.
- Under this growth strategy, the company will deliver a mall in Kolkata in FY25 and has already signed up land for a mall in Surat. Additionally, the company is in active discussion at four of the five priority markets viz; Thane, Navi Mumbai, Chandigarh, Jaipur and NCR.
- Over the last 24 months, the company has raised INR49b of capital from QIP and infusion from both CPPIB and GIC, which is yet to be fully deployed and will act as a war chest for the company to meet its INR20b of pending capex (at PHNX share) and growth capital requirements.

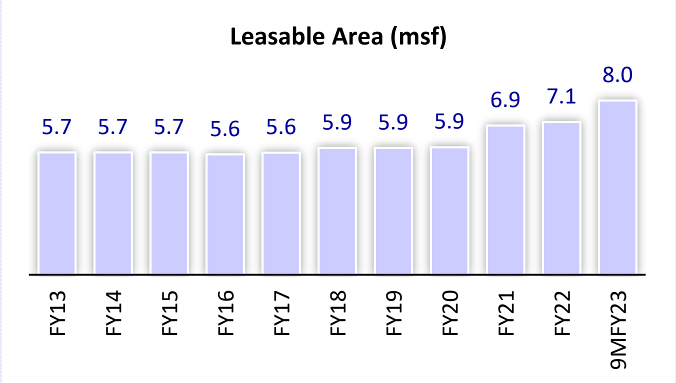
Valuation and view: Reinitiate at BUY with TP of INR1,700

Strong pre-leasing trend provides high growth visibility. Commercial segment (retail + offices) to report 34% CAGR in EBITDA over FY23-25E

- PHNX opened its 11th mall in Ahmedabad in Feb'23 and is on track to deliver the Pune and Bengaluru malls in 1QFY24. With healthy pre-leasing of ~90%, its commercial EBITDA (office + retail) is expected to report 34% CAGR over FY23-25.
- We value (i) operational **Retail and office** assets at a cap rate of 7-9% and upcoming assets using DCF with terminal value calculated on steady state rentals and discounting back to Sep'24 at a WACC of 11.7% (ii) hotel assets are valued at 15-17.5x Sep'24E EBITDA and (iii) residential segment on NPV. **Based on SoTP, we value PHNX at INR292b, net off INR13b of debt, or per share price of INR1,700, indicating an upside potential of 31%. We reinitiate coverage with a BUY rating on stock.**
- Healthy pre-leasing of its upcoming malls provides a strong near-term visibility on rental growth. Hence, if we push up the valuation base at the end of FY25 (two-year return), taking into account stabilized rental run-rate for the upcoming malls and no pending capex, **our valuation for the retail segment increases to INR290b from INR239b in base case. Thus, our TP increases to INR2,000, indicating a 54% upside potential.**
- **Risk:** 1) Prolonged softness in consumption will negatively impact operational portfolio and can extend stabilization timelines for new malls. 2) Slowdown in leasing demand can derail company's plan to record steep growth in income from office assets.

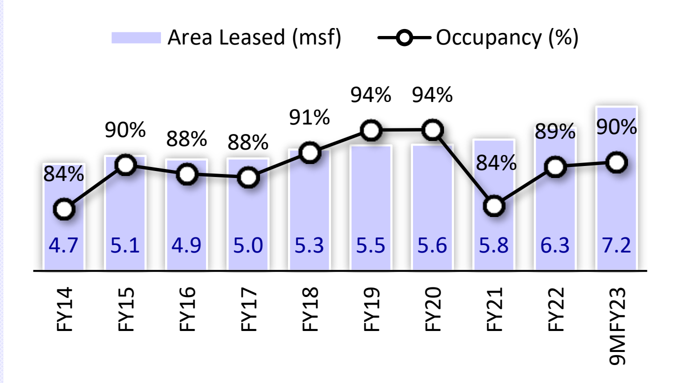
STORY IN CHARTS

Exhibit 1: Portfolio remained stable at 6msf until FY21



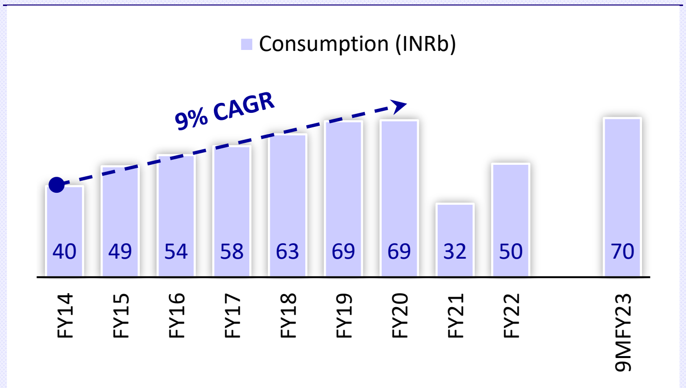
Source: MOFSL, Company

Exhibit 2: Occupancy peaked out at 94% before Covid



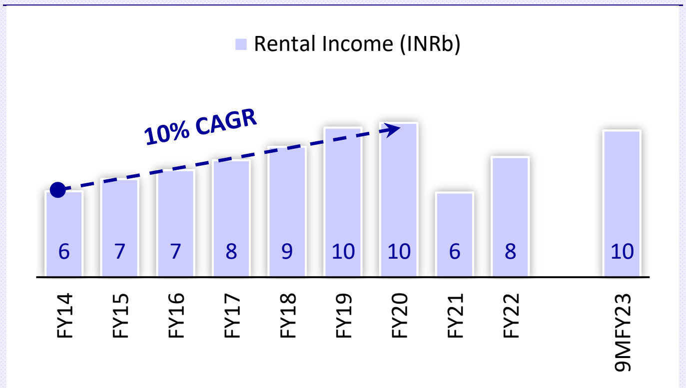
Source: MOFSL, Company

Exhibit 3: Consumption registered a 9% CAGR over FY14-20



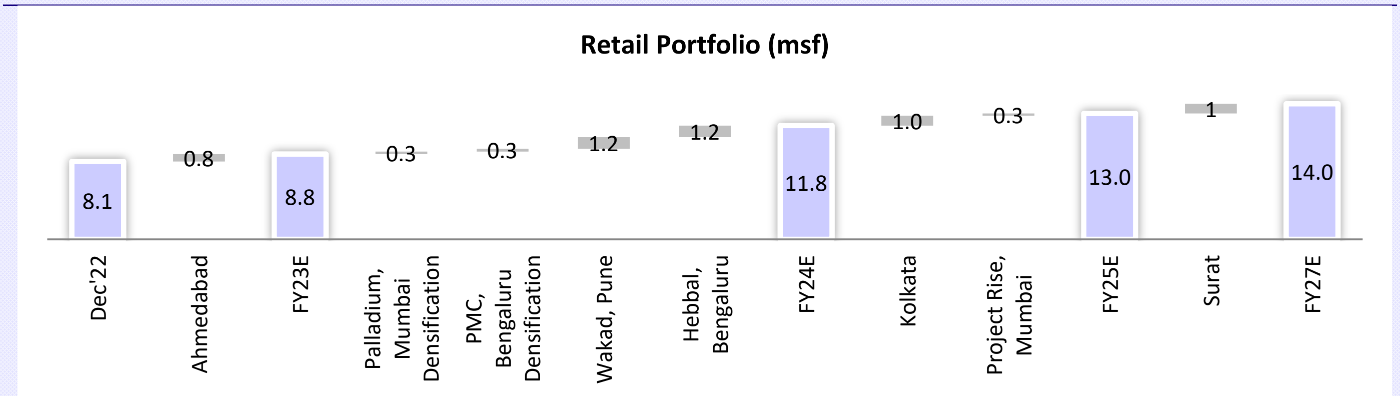
Source: MOFSL, Company

Exhibit 4: Rental Income tracked consumption growth



Source: MOFSL, Company

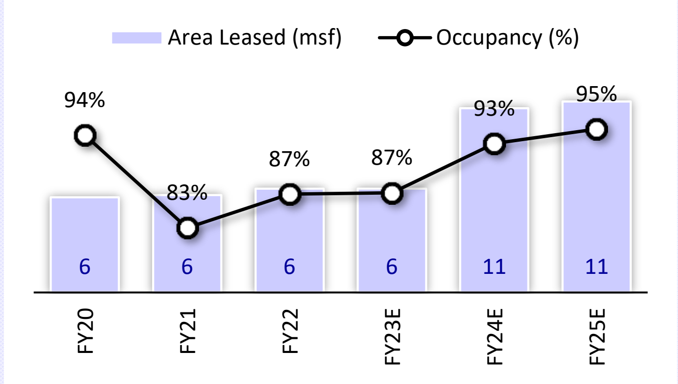
Exhibit 5: Retail portfolio to increase to 14msf by FY27



Source: MOFSL, Company

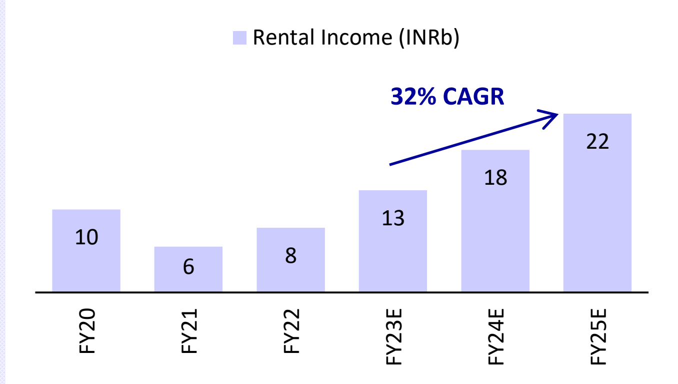
STORY IN CHARTS

Exhibit 6: Occupancy expected to inch up toward 95%



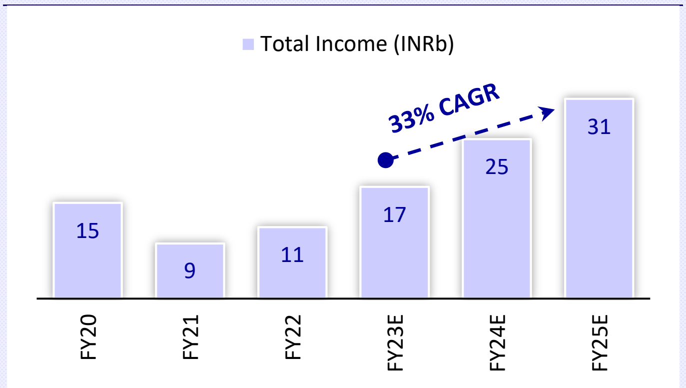
Source: MOFSL, Company

Exhibit 7: Rental income of retail portfolio to report 32% CAGR over FY23-25



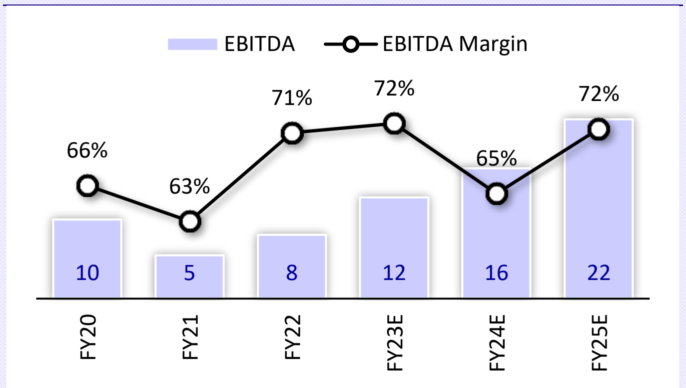
Source: MOFSL, Company

Exhibit 8: Expect PHNX's total income to register 33% CAGR over FY23-25

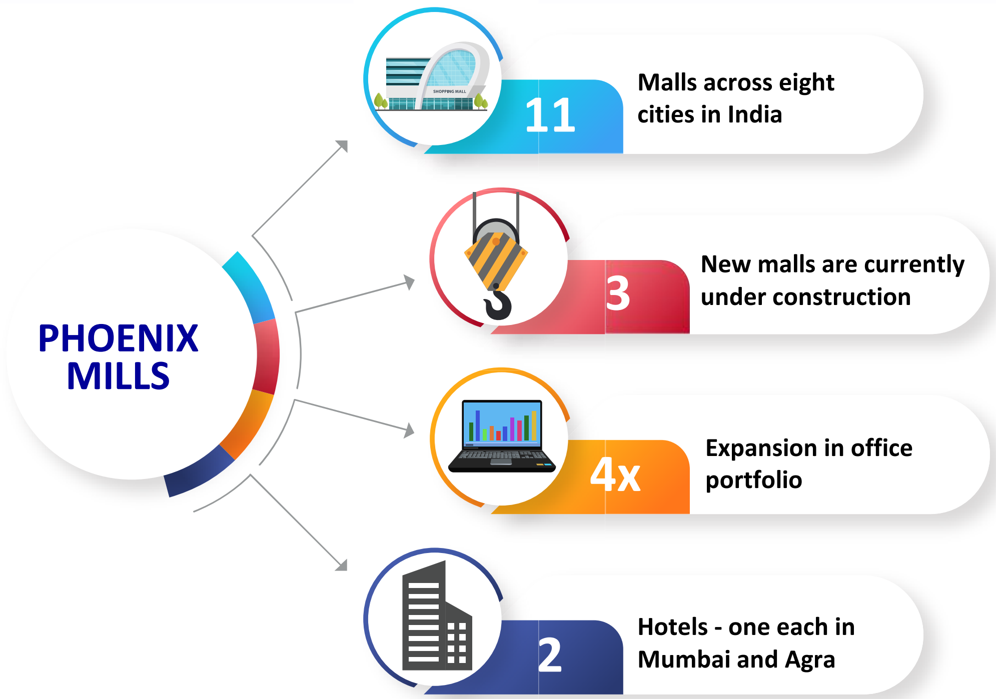


Source: MOFSL, Company

Exhibit 9: Retail EBITDA to grow by ~2x by FY25



Source: MOFSL, Company



Consumption growth back on track

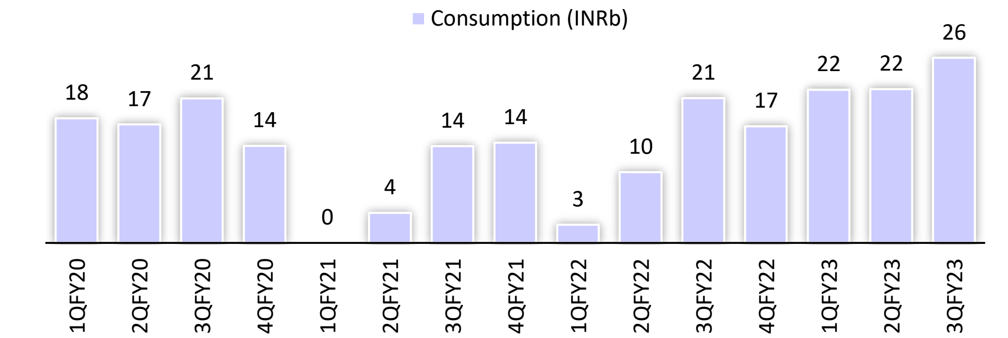
- **In 3QFY23, consumption across Phoenix's mall portfolio rose 28% YoY and 20% sequentially to INR26.5b.**
- **Excluding Pallasio, Lucknow, which was operationalized in Jul'20, the total consumption in 3QFY23 was 14% higher than pre-Covid (Q3FY20) levels.**
- **Strong consumption momentum is visible across malls with each major mall bettering its pre-Covid consumption run-rate by 10-40% on an average**

Consumption at PHNX's mall portfolio has remained consistently higher (10-30%) than pre-Covid run-rate since Mar'22

Consumption trending higher than pre-Covid levels

- PHNX's mall portfolio has seen a consistent rebound in consumption post the second wave of Covid. In 3QFY23, the company clocked its highest ever quarterly consumption of INR26.5b, an increase of 28%/20% YoY/QoQ
- Even excluding Lucknow's Phoenix Palassio, which commenced operations from Jul'20, the consumption was higher than pre-Covid peak of INR20b. Consequently, the same was mirrored in rental income too as highest level of INR3b (excl. Pallasio) in 3QFY23, up 10% compared to pre-covid level.

Exhibit 10: PHNX has seen a sharp pickup in consumption post the second wave of Covid in 1QFY22



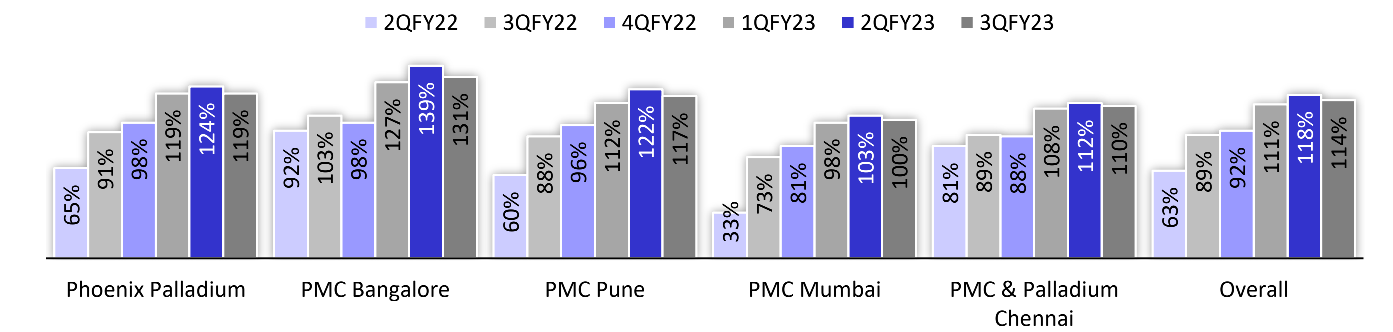
Source: Company, MOFSL

Consumption growth trend is consistent across PHNX's malls with run-rate 10-40% higher than pre-Covid levels

Consumption growth consistent across malls

- The third wave of Covid in Jan'22 came in as a minor hiccup to the consumption recovery. However, due to lower severity than previous waves, consumption saw a sharp recovery, and since Mar'22, it has consistently remained above the pre-Covid levels.
- Recovery has been consistent in the malls across the cities with consumption run-rate being 10-40% higher than pre-Covid levels since the beginning of FY23.

Exhibit 11: The trend has further gained strength with consumption in Oct exceeding pre-Covid levels



Source: Company, MOFSL

Top-8 cities on the cusp of experiencing consumption boom

Grade-A malls to outshine

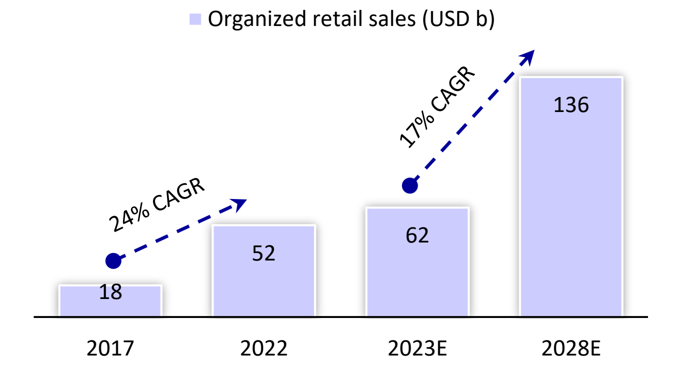
- **As per Knight Frank, the size of organized retail market registered a 24% CAGR to USD52b over FY17-22 and is expected to further deliver 17% CAGR to USD136b over FY23-28.**
- **A large part of this growth is expected to be driven by malls and high street retail, and thus, the consumption in malls across top-eight cities is expected to outpace industry growth at 29% CAGR over FY23-28.**
- **Supply of grade-A mall has picked up post 2018 due to vacancy rates as low as 4%. However, with active developer count of 33 versus over 100 before 2010, the supply of Grade-A malls is likely to be constrained and will outshine in terms of rental growth.**

Consumption growth to outpace growth in organized retail

Mall consumption in top-8 cities is expected to register a 29% CAGR over FY23-28E

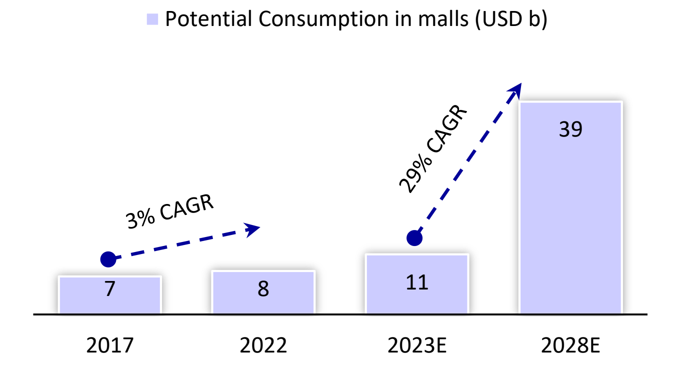
- As per Knight Frank, the organized retail market registered a 24% CAGR to USD52b over FY17-22 as its share in the overall retail industry increased to 12%.
- With expected healthy growth in economy and rise in disposable income, the share of organized retail market is further expected to record a 17% CAGR to USD136b over FY23-28E.
- Shopping malls and high street are likely to play a major role in the next leg of organized retail growth, and hence, consumption in malls across top-eight cities is expected to outpace industry growth and register a 29% CAGR to USD39b over FY23-28E

Exhibit 12: Organized retail to record a 17% CAGR over FY23-28



Source: Knight Frank, MOFSL

Exhibit 13: Mall consumption growth to outpace retail industry growth at 29% CAGR



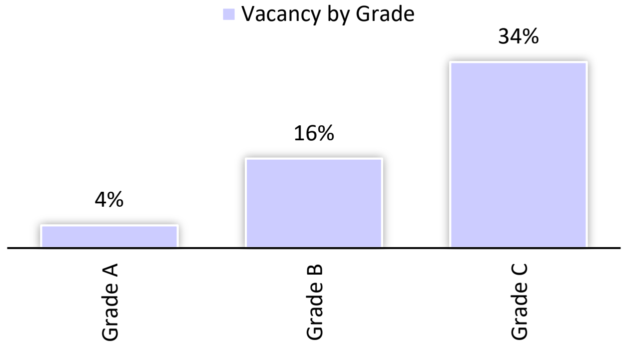
Source: Knight Frank, MOFSL

Grade A malls enjoy low vacancy rates

Grade-A malls have vacancy of 4%, indicating its success, and hence, supply has also been favorably tilted toward Grade-A

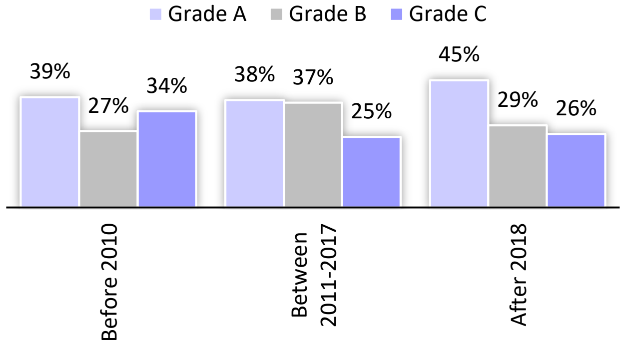
- Grade A malls are classified as malls over 0.5msf with a vacancy of 0-9%, strict implementation of zone, and active mall management. The success of these malls can be ascertained through vacancy of as low as ~4% versus 16% and 34% for Grade B and Grade C malls, respectively.
- Low vacancy has ensured proportionate increase in the supply of Grade-A malls. About 45% of the total malls developed post 2018 in top-eight markets are Grade-A malls.

Exhibit 14: Vacancy at Grade-A malls is below 4%



Source: Knight Frank, MOFSL

Exhibit 15: Increased Supply of Grade-A malls



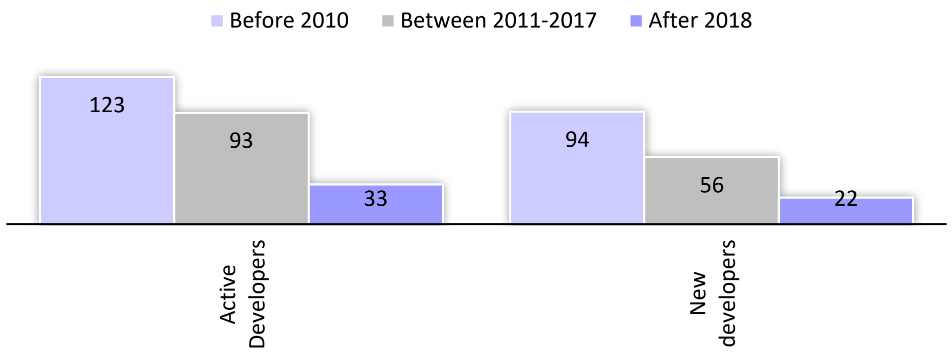
Source: Knight Frank, MOFSL

While Grade-A malls have been preferred, supply has been concentrated to a few players, which are backed by PE partners

Supply constraints of large and high quality malls to continue

- The quality of mall development improved post 2018 with the entry of organized players with right expectations.
- The number of active developers are just a quartile of what it was before 2010, leading to limited supply.
- Private equity partners such as Blackstone, GIC, CPPIB have partnered with large organized developers, providing easy access to capital to only a select few, which has further constrained the supply of large and quality malls

Exhibit 16: No. of active players are 1/4th of prior to 2010



Source: Knight Frank, MOFSL

Phoenix – Best proxy on India's retail growth

Retail income to record a 32% CAGR over FY23-25

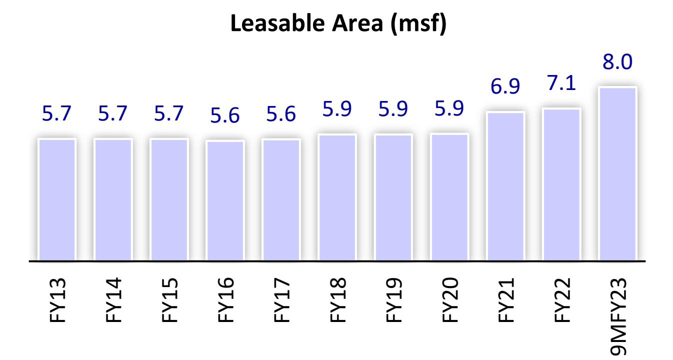
- **Over FY14-20, consumption across PHNX's mall portfolio has delivered a CAGR of 9%, while the retail rental income has marginally outpaced the consumption growth at 10% CAGR during the same period.**
- **By FY26, the company will have presence across six of the top-eight markets in India and at least two malls in some key markets such as Mumbai, Pune, and Bengaluru along with presence in a few tier-II cities such as Lucknow, UP and Indore, MP.**
- **As the country gears up to experience a strong consumption boom across the key markets, we believe PHNX is the best proxy to play India's organized retail growth.**
- **PHNX's retail portfolio is expected to increase to 13msf by FY25 from 9msf as of Mar'23, and is expected to lead to 32% CAGR in rentals over FY23-25.**

Portfolio largely stable but rental income recorded a 10% CAGR over FY14-20

PHNX's portfolio remained stable at 6msf until FY20. Occupancy were healthy at 94% before Covid

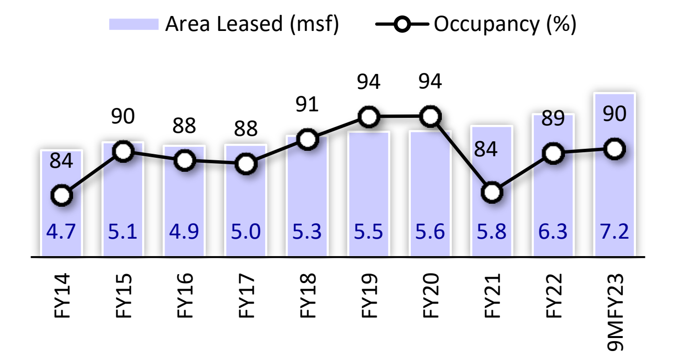
- PHNX's mall portfolio largely remained stable at 6msf until FY20. It completed its 1.0msf Pallasio, Lucknow mall in FY21, taking the portfolio size to ~7msf
- Occupancy rate peaked out at 94% in FY20 before it declined to 84% in FY21. Stabilization of new malls and recovery in leasing post Covid led to a rise in occupancy to ~90% in Dec'22.

Exhibit 17: Portfolio remained stable at 6msf until FY20



Source: Company, MOFSL

Exhibit 18: Occupancy peaked out at 94% before Covid

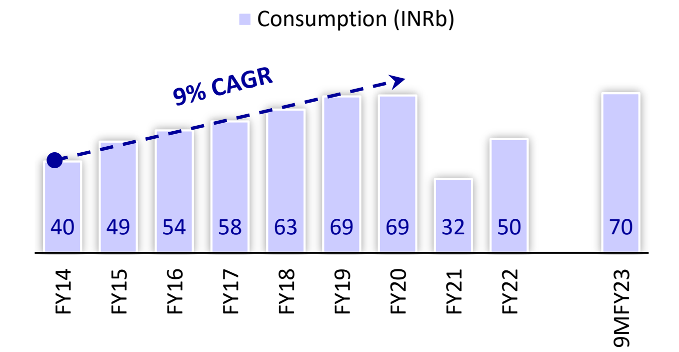


Source: Company, MOFSL

Growth in rental income broadly matched the consumption growth over FY14-20

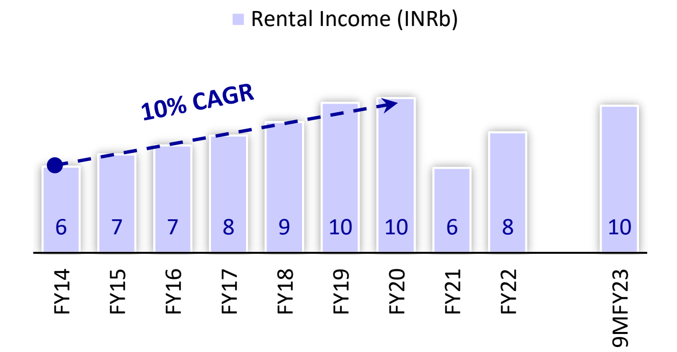
- Over FY14-20, consumption of PHNX's mall portfolio registered a 9% CAGR, while rental income tracked the consumption growth at 10% CAGR.
- Consumption and rentals were adversely impacted during the Covid outbreak but are on track to be the best ever in the company's history in FY23.

Exhibit 19: Consumption recorded a 9% CAGR over FY14-20



Source: Knight Frank, MOFSL

Exhibit 20: Rental growth tracked consumption growth



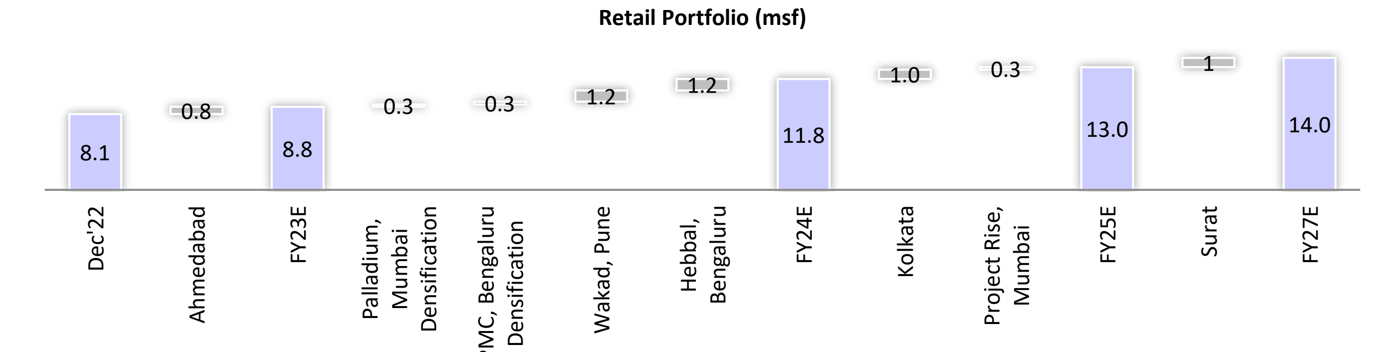
Source: Knight Frank, MOFSL

PHNX is best proxy to play retail consumption growth in India

PHNX's proven success in managing malls makes it a big beneficiary of consumption boom and best proxy for retail growth

- The PHNX's success in the mall business can largely be ascribed to its expertise in acquiring attractive land parcels, mall design, tenant mix, identification of consumer trends, and data intelligence.
- Retailers' confidence on PHNX is evident from the company's longstanding relationships with several domestic and global retail brands such as Zara, Diesel, Lifestyle, and PVR Cinemas. Such relationships help PHNX to secure retail clients for its new developments (especially for large spaces) at suitable rates.
- We believe that the company provides a unique way to play India's retail growth story due to its (a) strong track record of execution and operations, (b) further scalability, (c) focused strategy to tap high potential markets, and (d) robust cash generation.

Exhibit 21: Retail portfolio to increase to 14msf by FY27



Source: MOFSL, Company

Scale up in portfolio to help gain consumption share across multiple cities

PHNX's mall portfolio is expected to increase to 14msf by FY27

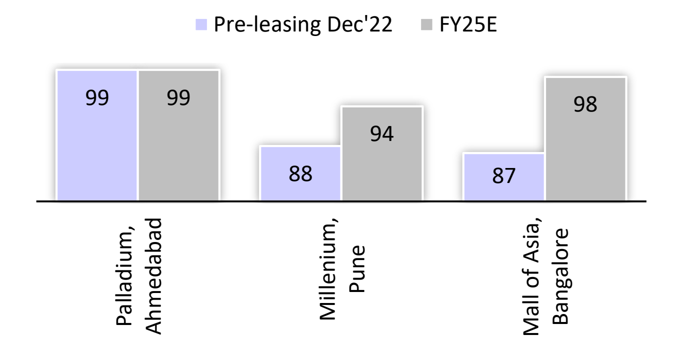
- PHNX's retail portfolio is expected to increase to 14msf by FY27 from 8.8msf as of Mar'23. The company till date has presence in five of the top-eight cities namely Mumbai, Pune, Bengaluru, Ahmedabad and Chennai along with malls in Indore, Lucknow and Bareilly.
- Post this expansion, the company will increase its presence in one more city in top-8 markets, i.e., Kolkata. The company has also signed up for a mall in Surat (tenth city), which is expected to complete in FY27.
- The expansion plans also include (i) densification of Palladium, Mumbai and Market City, Bengaluru and (ii) opening of a second mall in Pune and Bengaluru. The company will not only benefit from increased consumption in existing cities but also gain share in consumption from newer cities

Replicating Pallasio's success story in upcoming malls

Phoenix Pallasio, Lucknow achieved INR1b annualized EBITDA run-rate within one year of operations, which MarketCity malls took four to five years

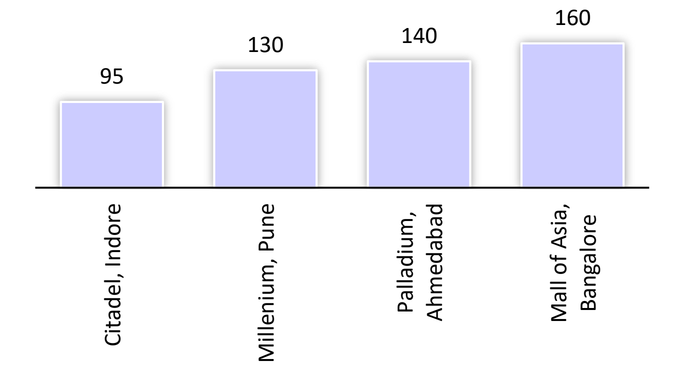
- Phoenix Palassio, Lucknow, which became operational in Q2FY21, continues to deliver healthy performance across the operational and financial parameters.
- The mall has reached INR2b of quarterly consumption and INR1b of annualized EBITDA within one year of its operations. MarketCity malls took five to eight years to achieve the same milestone.
- Apart from the location advantage, catchment area and retailer mix, part of the Pallasio's success is also attributable to the design of the mall, which continues to attract high footfalls.
- The company is now placing utmost importance to the overall design of the mall across its new assets in Indore, Kolkata, and Ahmedabad

Exhibit 22: Expect malls to stabilize within a year



Source: Company, MOFSL

Exhibit 23: Expected rental run-rate on a per sqft per month



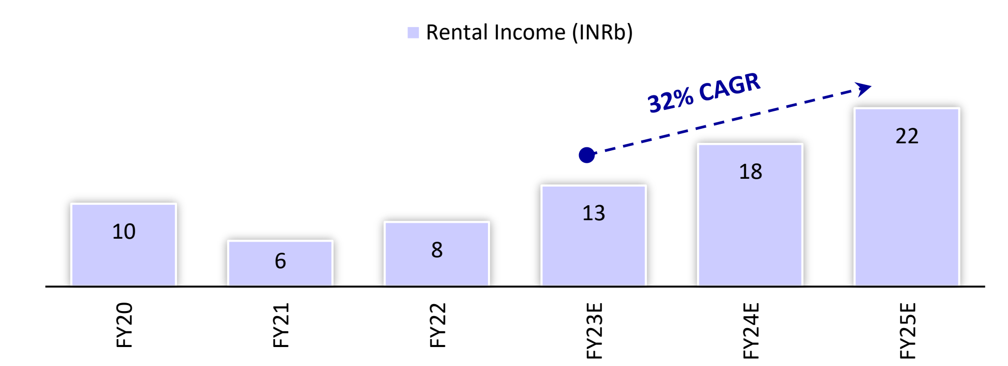
Source: Company, MOFSL

Healthy pre-leasing provides strong rental growth visibility

PHNX's upcoming malls in Pune and Bengaluru have reported healthy pre-leasing of ~90%. As the malls stabilize, rental income is expected to report 32% CAGR over FY23-25

- Recently operationalized Palladium, Ahmedabad is fully pre-leased while Phoenix Citadel, Indore (opened in Dec'22) is 94% leased out with trading occupancy at 64% as of Feb'23. Upcoming malls in Pune and Bengaluru are 88%/87% leased, while the operational timeline is still a quarter away.
- Strong pre-leasing trend across all new malls could lead to shorter stabilizing period and higher revenue generation from the very first day. We expect new malls to trade at occupancy of 80-85% within a year of operations.
- Thus, PHNX retail portfolio to report 32% CAGR in rental income over FY23-25E to INR22b, driven by (i) increased occupancy in existing malls and (ii) commencement of rentals from new malls.

Exhibit 24: Rental income of retail portfolio to report 32% CAGR over FY22-25



Source: Company, MOFSL

Mixed-use strategy to improve blended yields

Office portfolio expected to grow four-folds by FY26

- **PHNX has historically been a pure-play retail company with office exposure restricted to some standalone offices around High Street Phoenix and Palladium, Mumbai.**
- **It is now transforming itself into mixed-use asset owner by building and operating offices on top of/adjacent to existing and upcoming malls to improve the blended yield of the assets. With land already paid out for, the office assets once constructed will generate 20-25% yield on construction versus 15-20% for a mall.**
- **The company is planning to build ~5msf of office space across its retail assets over the next five years to increase its office portfolio to 7msf. These assets are expected to incrementally contribute ~INR8b of rental revenue once stabilized, leading to 32% CAGR in rentals to INR10b over FY22-FY30.**

Transforming its retail assets to mixed-use

- From a pure-play retail company a few years ago, PHNX is transforming itself as a specialist in the development of mixed-use assets with significant presence across retail and office.
- The mall acts as an anchor while the office assets sit on the top of/adjacent to the mall, thus providing a holistic experience for office users, leading to higher footfalls for the mall.
- From a capital allocation perspective, the strategy enables the company to efficiently utilize the land asset and earn higher return on incremental capital as the cost of developing the office is limited only to the extent of construction (land cost is underwritten for the mall)

Exhibit 25: Artistic impression of upcoming office assets

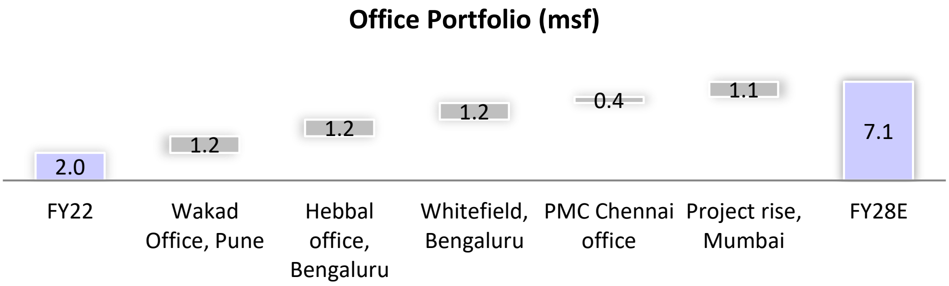
Source: Company

Office portfolio to increase by ~4x over next four years

Mixed-use strategy will lead to ~4x rise in office portfolio to ~7msf over four-five years

- PHNX delivered 0.8msf of office space across three towers on top of its Market City mall in Viman Nagar, Pune, in 4QFY22. Tower A is almost fully leased, while Tower B is ~75% occupied, and Tower C is 54% leased as of Jan'23.
- The company further plans to build office across its existing malls in Bengaluru (1.2msf), Chennai (0.4msf), and Palladium Mumbai (1.1msf) as well as in its upcoming malls in Pune (1.2msf) and Bengaluru (1.2msf)
- Post completion in FY28 (in phases), PHNX's office portfolio is expected to rise about four-fold to 7msf.

Exhibit 26: Office portfolio to grow by ~4x over the next 4-5 years



Source: Company, MOFSL

Blended yield on construction to improve for assets

Office assets have a construction yield of 20-25% since land is already paid out for

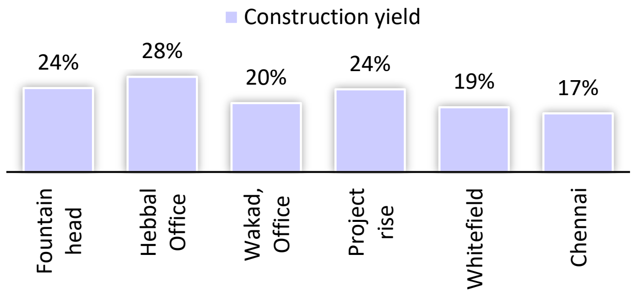
- The company will incur INR31b of capex to deliver its upcoming 5msf of office space. With land already paid out, the only costs the company would incur is for construction and approvals.
- At a steady state, these assets are expected to generate rental income of INR8b, leading to yield on cost of 23%, which is higher than malls at 15-20%.

Exhibit 27: Rent potential of upcoming office assets

Office asset	Rental income (INRb)
Fountain head, Pune	0.7
Mall of Asia, Hebbal (Office)	1.2
Mall of Millenium, Wakad (Office)	1.2
Project rise, Mumbai	3.1
Market City, Whitefield (Office)	1.2
Palladium Chennai (Office)	0.3
Total	**7.8**

Source: MOFSL, Company

Exhibit 28: With land cost already paid out, the assets will generate 20-25% construction yield



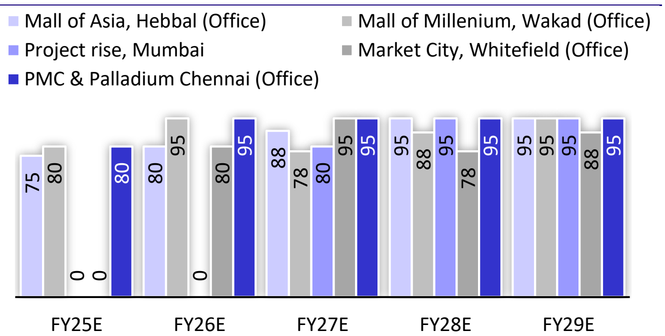
Source: MOFSL, Company

PHNX yet to prove its success in leasing office assets

Assuming a three-year stabilization period for office assets, the office segment is expected to report 32% CAGR in rentals over FY22-30

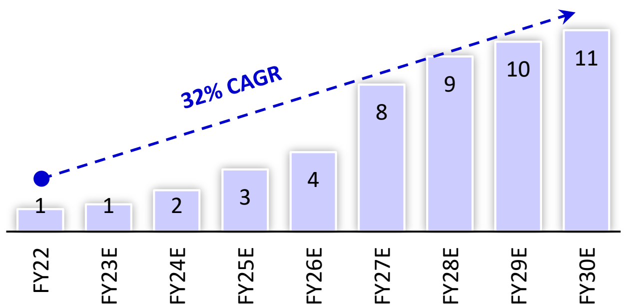
- Tower A at Fountain Head, Pune, was fully leased out in two quarters, however, it's been two years since the completion of Tower B and it is only 70% leased out till date and Tower C is >50% leased and company expects to fully lease these towers by FY24.
- Accordingly, we have built in a little pessimism in our assumption of leasing in upcoming assets and expect them to take at least three years to stabilize.
- Thus, it will take at least 7-8 years for the company to fully ramp up these assets, leading to 32% CAGR in rental income to INR10b over FY22-FY30.

Exhibit 29: Expect three years to stabilize office assets



Source: Company, MOFSL

Exhibit 30: Rentals to record a 32% CAGR over FY23-30



Source: Company, MOFSL

Backing from Marquee investors to enable continued scale-up

Targets to deliver 1msf of new mall every year

- **Historically, PHNX has always preferred a capital partner for its portfolio growth strategy, however, between FY12 and FY18, it spent INR10b to buy out the partners' stake, adversely impacting its growth plan.**
- **In Apr'17, the company partnered with CPPIB to create retail-led, mixed-use development platform to embark the next leg of growth. Further, GIC bought stake in PMC Mumbai and Pune in Jun'21 and infused INR15b, which will be utilized as growth capital.**
- **With CPPIB and GIC, PHNX has found right partners who are aligned with long-term growth vision of the company and it now targets to grow its portfolio by 1msf every year beyond FY24. In turn, CPPIB and GIC will get to participate at an early stage of value creation and generate 15-20% yield on construction from day one.**
- **Apart from additional malls in Thane and Navi Mumbai, the company is targeting to enter cities such as Jaipur, Chandigarh, NCR, Hyderabad, Goa, Nagpur, and Vizag.**

Buyout of partner's stake constrained the company's growth plans

PHNX spent INR10b over FY12-18 to buyout partners stake across its malls

- PHNX partnered with Everstone Capital, IL&FS, Edelweiss, etc., to develop MarketCity malls in Mumbai, Pune, and Bengaluru.
- In under five years post the completion, these funds were up for exit. PHNX paid INR10b to provide exit to these funds at a cap rate of 8-11%.
- While these stakes were bought at a discount to the current valuation, it constrained the company's growth plans as the portfolio remained stable between FY12 and FY20.

Exhibit 31: The company has bought back share of partners and paid INR10b over FY12-18, limiting its growth plans

Investment entity	Fund	Subsidiary	Asset	Year of acquisition	Stake	Consideration (INRm)	Cap rate
Everstone Capital	Horizon Ventures II and Horizon realty fund	Island star	PMC Bangalore	FY12-14	26%	680	8.6%
K2C Retail and K2 Property	IL&FS	Vamona	PMC, Pune	FY15	24%	716	11.1%
IL&FS	IL&FS	Offbeat	PMC, Mumbai	FY12-14	29%	NA	NA
Edelweiss Property Fund	Edelweiss	Vamona	PMC, Pune	FY15	4%	NA	NA
Edelweiss Property Fund	Edelweiss	Island star	PMC Bangalore	FY15	7%	NA	NA
Edelweiss Property Fund	Edelweiss	Upal Developers	Phoenix United, Lucknow	FY15	8%	NA	NA
Everstone Capital	Kshitij Venture Capital Fund	Classic Mall	PMC Chennai	FY14	21%	619	13.8%
HBS Realtors	HBS Realtors	Offbeat	PMC, Mumbai	FY17	5%	300	7.2%
IIRF, Vistara and Eder River	IIRF, Vistara and Eder River	Offbeat	PMC, Mumbai	FY17-18	20%	1,129	7.2%
Werra River and Crest Ventures	Werra River and Crest Ventures	Vamona	PMC, Pune	FY18	13%	1,099	8.5%
Pinnacle Real estate	Pinnacle Real estate	Island star	PMC Bangalore	FY17	9%	NA	NA
Total (as confirmed from company)						**~10,000**	**8-11%**

Source: Company

CPPIB and GIC right partners for the company's long-term growth vision

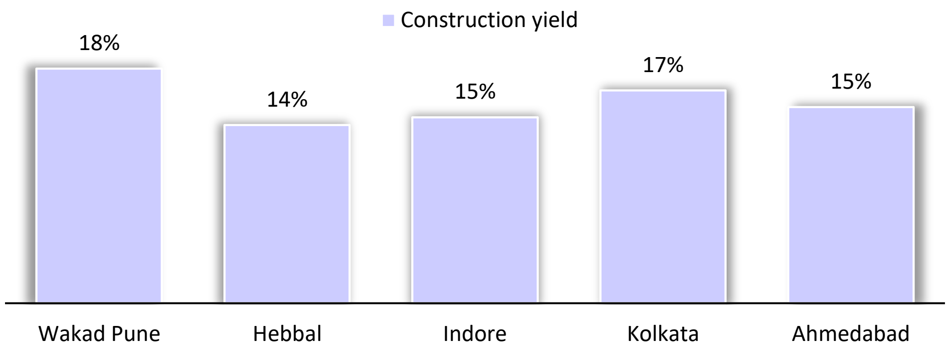
PHNX has signed for retail-led, mixed-use platform with CPPIB and GIC, which will enable long-term scale-up

- In FY19, CPPIB infused INR16b for a 49% stake in the platform, which includes PMC, Bengaluru (operational) and upcoming Market City malls in Wakad, Pune, Hebbal, Bengaluru, and Indore.
- Further, in FY22, GIC and PHNX entered into a INR53b retail platform, where GIC infused INR15b for a 35% stake in the platform. PHNX's operational Market City malls in Mumbai and Pune were transferred to the platform.

- With two abled partners and aligned growth vision, PHNX has set a target to add 1msf of mall every year. In line with its growth vision, PHNX again formed a JV with CPPIB to develop a greenfield mall in Kolkata, which will be delivered in FY25. It has also signed up for a land in Surat and targeting entry into cities such as Jaipur, Chandigarh, NCR, Hyderabad, Goa, Nagpur, and Vizag.

CPPIB and GIC will earn a healthy 15-20% construction yield on investment in the first year of operations

Exhibit 32: Construction yield for malls varies, ranging between 15% and 20%



Source: Company, MOFSL

CPPIB and PHNX will jointly develop ~10msf of malls and office. GIC's infusion is yet to be deployed

Raised INR49b of capital in the last 24 months; to act as war chest for growth

- Apart from the retail platform, CPPIB partnered with PHNX to jointly develop 1.3msf office project adjacent to Palladium, Mumbai (Project rise), and infused INR13.5b.
- Overall, the company raised INR49b of capital from marquee investors, including INR11b of QIP. This capital will act as a war chest for the company to achieve its targeted 1msf of mall addition every year.

Exhibit 33: Over last 24 months, the company has raised INR49bn from Marquee investors

Nature of fund raise	Timeline	Rs. bn
QIP	Aug-20	11.0
CPPIB JV for Kolkata	May-21	3.8
Equity infusion in existing retail platform with CPPIB	May-21	5.4
Retail platform with GIC	Jun-21	15.0
CPPIB JV for Lower Parel	Nov-21	13.5
Total		**48.7**

Source: MOFSL

Initiate with a BUY rating and TP of INR1,700

High visibility on growth; two-year forward scenario indicates TP of INR2,000

- **PHNX is expected to report 34% CAGR in its commercial (Retail + Office) EBITDA driven by recovery in leasing in existing assets and commencement of rentals from new assets.**
- **We value the operational retail assets using a cap rate of 7-7.5% on Sep'24E EBITDA, while ongoing assets are valued based on DCF with terminal value calculated on stabilized EBITDA run-rate for respective assets and discounting it back to Sep'24.**
- **Hotel assets are valued at 15-17.5x EV/EBITDA on Sep'24E and residential assets are valued based on NPV method. Based on SoTP valuation, we derive an asset value of INR296b, net off INR13b of net debt, leading to per share value of INR1,700**
- **The company's upcoming retail assets are 90% leased out. If we consider valuation at the end of FY25, by when the company will deliver all the ongoing retail assets, the value of retail assets increases to INR290b from INR239b. Thus, considering strong growth visibility, our TP increases to ~INR2,000.**

We value PHNX based on SoTP valuation where…

- **Operational Retail assets** are valued using a cap rate of 7% for Palladium malls and 7.5% for Market city malls on Sep'24E EBITDA and **ongoing retail assets** are valued using DCF with terminal value applied on stabilized EBITDA run-rate of respective assets and discounting back to Sep'24.
- **Operational boutique offices** are valued on a cap rate of 9% and upcoming office assets are valued using DCF and cap rate of 8%.
- **Hospitality business** is valued using 15-17.5x EV/EBITDA multiple on Sep'24E. We have not assigned any value to its upcoming Grand Hyatt hotel in Bengaluru.
- **Residential business** is valued at NPV with a WACC of 11.7%

Based on the above SoTP approach, we arrive at a gross asset value of INR305b. Net of FY23E net debt of INR13b, we derive an NAV of INR292b or INR1,700/share, indicating an upside potential of 31%.

Exhibit 34: Our SoTP-based TP of INR1,700, indicates an upside potential of 31%

Nav Calculation	Rationale	INR b	per share (INR)	%
Retail - Operational	Sep'24E EBITDA discounted at cap rate of 7-7.5%	204	1,187	70%
Retail - Ongoing	Steady state EBITDA at a cap rate of 7-7.5% discounted back to Sep'24 using WACC of 11.7%	35	203	12%
Total Retail		**239**	**1,390**	82%
Office - Operational	Sep'24E EBITDA discounted at cap rate of 8-9%	15	88	5%
Office - Ongoing	Steady state EBITDA at a cap rate of 8% discounted back to Sep'24 using WACC of 11.7%	21	122	7%
Total Office		**36**	**210**	12%
Hospitality	EV/EBITDA multiple of 15-17.5x on Sep'24E EBITDA	21	120	7%
Residential	NPV at WACC of 11.7%	10	57	3%
Gross Asset Value		**305**	**1,776**	**104%**
Less: Net Debt		(13)	(75)	-4%
Net Asset Value		**292**	**1,700**	**100%**
CMP			1,295	
Up/down			31%	

Source: MOFSL

Healthy pre-leasing provides high visibility of overall rental growth; hence, one can take two-three-year view on stock

Higher upside potential post completion of ongoing retail malls

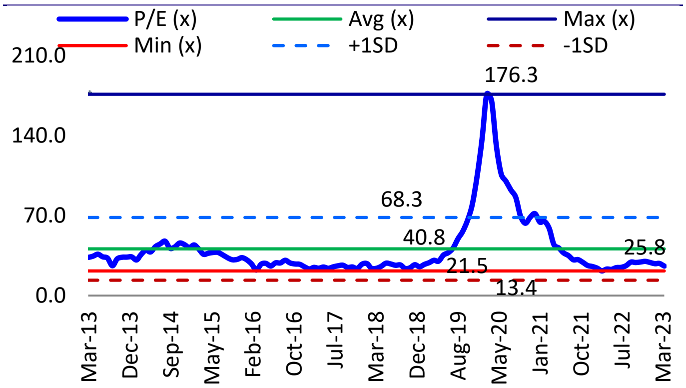
- Upcoming new malls in Indore, Ahmedabad, Pune, and Bengaluru are pre-leased at ~90%. Kolkata is also expected to see similar pre-leasing traction.
- While the stock currently offers ~31% upside with a one-year view, strong visibility on rental growth, on account of healthy pre-leasing enables investor play the story with two-three year view.
- If we base-out our valuation in FY25, which is when PHNX will deliver all its ongoing retail assets, applying a cap rate on FY27E EBITDA with no pending capex derives a valuation of INR290b, resulting in a TP of INR2,000, indicating an upside potential of 54%.
- Growth in mall portfolio as per the company's slated target of 1msf mall addition every year beyond FY25 will be an option value.

Exhibit 35: Taking a two-year view for stabilization of upcoming mall, TP increases to INR2000, 54% upside

Nav Calculation	Rationale	INR b	per share (INR)	%
Retail - Operational	Sep'24E EBITDA valued at cap rate of 7-7.5%	233	1,358	68
Retail - Ongoing	Mar'27E EBITDA valued at cap rate of 7-7.5%	57	331	17
Total Retail		**290**	**1,689**	**84**
Office - Operational	Sep'24E EBITDA valued at cap rate of 8-9%	15	88	4
Office - Ongoing	Steady state EBITDA at a cap rate of 8% discounted back to Sep'24 using WACC of 11.7%	21	122	6
Total Office		**36**	**221**	10
Hospitality	EV/EBITDA multiple of 15-17.5x on Sep'24E EBITDA	21	120	6
Residential	NPV at WACC of 11.7%	10	57	3
Gross Asset Value		**357**	**2,075**	**104**
Less: Net Debt		(13)	(75)	-4
Net Asset Value		**344**	**2,000**	**100**
CMP			1,295	
Up/down			**54%**	

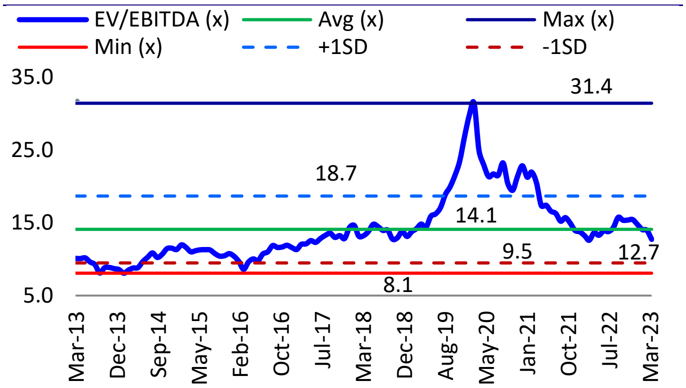
Source: MOFSL

Exhibit 36: P/E chart



Source: Bloomberg, MOFSL

Exhibit 37: EV/EBITDA chart



Source: Bloomberg, MOFSL

SWOT analysis

Bull and Bear cases

Bull Case

- ☑ In case of retail malls, we have assumed a lower vacancy rate and higher yearly rentals growth of 7.5% along with a lower cap rate of 6.75%/7% for Palladium/PMC malls vis-à-vis our base of 7%/7.5%
- ☑ For the commercial segment, we have assumed a faster ramp-up and higher occupancy
- ☑ Adjusting for net debt of INR13b, we arrive at a TP of INR1855

Bear Case

- ☑ We assume lower rental growth rate of 3% p.a. (v/s 5%) in base case. We have built in lower occupancy growth from its current levels at existing malls along with higher stabilizing period for upcoming malls.
- ☑ A cap rate of 8%/8.5% for Palladium/PMC malls vis-à-vis our base of 7%/7.5%
- ☑ For the commercial segment, we have assumed a slower ramp up of new towers, resulting in lower occupancy
- ☑ Adjusting for net debt of 14b, we arrive at a TP of 1,245, implying a 4% downside.

Scenario analysis - Bull Case

(INR b)	FY21	FY22	FY23E	FY24E
Revenue	10	15	26	33
Growth (%)	(46)	42	73	30
EBITDA	5	7	15	19
YoY growth (%)	(49)	49	110	24
EBITDA margin (%)	47	49	60	57
PAT	1	2	13	9
EPS (INR)	3	13	44	51
Target price (INR)				1,855
Upside/(downside) (%)				43

Source: Company, MOFSL

Scenario analysis – Bear Case

(INR b)	FY21	FY22	FY23E	FY24E
Revenue	10	15	25	30
Growth (%)	(46)	42	69	19
EBITDA	5	7	15	17
YoY growth (%)	(49)	49	101	13
EBITDA margin (%)	47	49	59	56
PAT	1	2	7	7
EPS (INR)	3	13	42	41
Target price (INR)				1,245
Upside/(downside) (%)				-4

Source: Company, MOFSL

Management overview

Mr. Atul Ruia, Chairman (Non – Independent)

Mr. Atul Ruia is a graduate in Chemical Engineering from the University of Pennsylvania and holds a degree in Business Management from the Wharton School of Finance. He joined the Board of PML in 1996 and is the key force behind the development of Phoenix Palladium, Mumbai's first retail-led mixed-use destination. It was under his aegis that the Company embarked upon a pan-India asset creation strategy with the flagship brand of Phoenix MarketCity.

Mr. Shishir Shrivastata, Managing Director

Mr. Shishir Shrivastava has been employed with the Phoenix group since 1999. His over 23 years of experience with the Phoenix group spans across multiple businesses and varied functions, including operations, acquisitions, capital raise, project management, and asset management. Shishir spearheads strategy and all business verticals including retail, commercial offices, hotels, and new businesses. He has been instrumental in maneuvering the organization during the pandemic and has led multiple rounds of capital raise through the capital markets and by formation of strategic platforms with marquee global investors.

Mr. Anuraag Srivastava, Group CFO

Anuraag brings with him more than 25 years of experience working in varied sectors such as FMCG, Retail, Telecom, and Infrastructure across multiple geographies. He is responsible for driving the company's overall financial strategy, deployment of capital, unlocking shareholder value, future fund raising strategies, mergers and acquisitions.

Mr. Varun Parwal, Deputy CFO

Varun has over 15 years of experience in industries such as real estate, pharma, and construction, covering functions of investor relations, fund raising, sell-side equity research, project management, and wealth management. As Deputy CFO, he is Head - Finance and Accounts for PML's non-retail businesses (i.e., Residential, Commercial, and Hotels).

ESG initiatives

Environment and Sustainability initiatives

- Power is one of major cost centers for the company and the share of green energy stood at 30% in FY22.
- To reduce the energy consumption, the company has installed energy-efficient and automotive cooling systems and lights across portfolio.
- Offsite solar plants are operational for Phoenix MarketCity Bangalore, Pune, and Mumbai and will soon be operational for Phoenix Pallasio Lucknow.
- The company is working to receive a USGBC Gold/Platinum certification for all their upcoming offices and Gold/Silver for upcoming malls.

Governance Pointers

- PHNX has a multi-tiered governance structure with well-defined roles and responsibilities. Of the total eight Board members, four are Independent including 1 women director.
- As per the auditor report, PHNX has complied with all the statutory and regulatory compliance requirements

CSR Initiatives

- The Company's beneficiaries through social development projects are centered around the marginalized, economically weak, and disadvantaged sections of the society, especially the girl child, under-privileged women, and persons with disabilities.
- This year in addition to the water conservation activities and promotion of Education among under-privileged children, the company's CSR activities also focused on COVID-19 relief measures to support the marginalized and disadvantaged communities.
- In FY22, the company has spent INR33m on CSR activities.

Financials and valuations

Consolidated - Income Statement							(INR M)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Total Income from Operations	**19,816**	**19,411**	**10,450**	**14,835**	**25,948**	**32,482**	**39,133**
Change (%)	22.3	-2.0	-46.2	42.0	74.9	25.2	20.5
Cost of Materials/Construction	2,189	1,959	769	1,030	1,557	2,255	2,717
Employees Cost	1,615	1,655	1,125	1,569	2,335	2,923	3,522
Other Expenses	6,081	6,126	3,614	4,896	6,467	8,597	7,990
Total Expenditure	**9,884**	**9,740**	**5,508**	**7,496**	**10,359**	**13,775**	**14,229**
% of Sales	49.9	50.2	52.7	50.5	39.9	42.4	36.4
EBITDA	**9,932**	**9,671**	**4,942**	**7,339**	**15,589**	**18,707**	**24,905**
Margin (%)	50.1	49.8	47.3	49.5	60.1	57.6	63.6
Depreciation	2,042	2,076	2,094	1,859	2,262	2,998	3,474
EBIT	**7,889**	**7,595**	**2,848**	**5,481**	**13,327**	**15,709**	**21,430**
Int. and Finance Charges	3,506	3,478	3,478	2,945	3,265	3,172	2,535
Other Income	851	585	923	744	1,179	1,233	1,375
PBT bef. EO Exp.	**5,235**	**4,702**	**292**	**3,280**	**11,241**	**13,769**	**20,271**
EO Items	481	78	0	0	5,568	0	0
PBT after EO Exp.	**5,716**	**4,780**	**292**	**3,280**	**16,808**	**13,769**	**20,271**
Total Tax	1,099	1,221	-47	801	2,248	3,459	5,092
Tax Rate (%)	19.2	25.4	-16.0	24.4	13.4	25.1	25.1
Share of associate	-760	-538	138	202	74	371	681
Minority Interest	-353	-326	-99	308	1,344	1,859	2,510
Reported PAT	**4,210**	**3,347**	**576**	**2,374**	**13,290**	**8,822**	**13,350**
Adjusted PAT	**3,822**	**3,297**	**576**	**2,374**	**8,467**	**8,822**	**13,350**
Change (%)	57.8	-13.7	-82.5	311.8	256.7	4.2	51.3
Margin (%)	19.3	17.0	5.5	16.0	32.6	27.2	34.1

Consolidated - Balance Sheet							(INR M)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Equity Share Capital	307	307	344	357	357	357	357
Total Reserves	34,435	38,268	50,044	65,468	78,330	86,670	99,484
Net Worth	**34,741**	**38,575**	**50,388**	**65,825**	**78,687**	**87,027**	**99,841**
Minority Interest	12,233	10,660	11,014	24,288	31,756	39,934	46,572
Total Loans	42,437	43,084	40,626	39,821	39,821	34,821	24,821
Deferred Tax Liabilities	-1,387	-585	-1,215	-1,209	-1,209	-1,209	-1,209
Capital Employed	**88,025**	**91,734**	**1,00,812**	**1,28,725**	**1,49,054**	**1,60,573**	**1,70,025**
Gross Block	73,788	75,124	84,595	89,428	1,07,240	1,32,640	1,45,290
Less: Accum. Deprn.	12,277	14,309	15,582	17,409	19,671	22,669	26,144
Net Fixed Assets	**61,511**	**60,815**	**69,013**	**72,019**	**87,569**	**1,09,970**	**1,19,146**
Goodwill on Consolidation	3,713	3,058	3,058	3,058	5,864	5,864	5,864
Capital WIP	8,963	15,343	12,740	20,486	18,573	6,736	2,511
Total Investments	**7,450**	**5,913**	**5,756**	**23,173**	**23,248**	**23,619**	**24,300**
Curr. Assets, Loans&Adv.	**18,133**	**19,096**	**22,110**	**23,354**	**33,815**	**37,947**	**44,247**
Inventory	8,987	8,161	7,682	7,498	8,514	10,378	9,746
Account Receivables	1,955	2,058	3,237	2,799	3,554	4,005	4,289
Cash and Bank Balance	1,920	1,407	5,139	5,926	11,368	12,195	18,473
Loans and Advances	5,271	7,470	6,053	7,131	10,379	11,369	11,740
Curr. Liability & Prov.	**11,744**	**12,490**	**11,865**	**13,366**	**20,015**	**23,564**	**26,043**
Account Payables	1,700	1,101	950	1,299	1,703	2,264	2,339
Other Current Liabilities	9,394	10,628	9,580	10,499	15,569	17,865	19,567
Provisions	651	761	1,335	1,568	2,743	3,434	4,138
Net Current Assets	**6,388**	**6,606**	**10,245**	**9,988**	**13,800**	**14,383**	**18,204**
Appl. of Funds	**88,025**	**91,735**	**1,00,812**	**1,28,725**	**1,49,054**	**1,60,573**	**1,70,025**

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)							
EPS	**24.9**	**21.5**	**3.4**	**13.3**	**47.4**	**49.4**	**74.8**
Cash EPS	38.2	35.0	15.5	23.7	60.1	66.2	94.2
BV/Share	226.4	251.4	293.2	368.7	440.8	487.5	559.3
DPS	2.6	3.3	0.0	1.0	2.4	2.7	3.0
Payout (%)	11.4	16.6	0.0	7.2	3.2	5.5	4.0
Valuation (x)							
P/E	51.4	59.6	381.7	96.3	27.0	25.9	17.1
Cash P/E	33.5	36.6	82.4	54.0	21.3	19.3	13.6
P/BV	5.7	5.1	4.4	3.5	2.9	2.6	2.3
EV/Sales	12.0	12.3	24.4	17.7	9.9	7.7	6.0
EV/EBITDA	23.9	24.6	51.7	35.8	16.5	13.4	9.4
Dividend Yield (%)	0.2	0.3	0.0	0.1	0.2	0.2	0.2
Return Ratios (%)							
RoE	12.1	9.0	1.3	4.1	11.7	10.6	14.3
RoCE	9.9	7.7	5.1	4.8	11.2	10.6	13.9
RoIC	10.2	8.2	4.5	5.3	13.2	11.0	13.2
Working Capital Ratios							
Asset Turnover (x)	0.2	0.2	0.1	0.1	0.2	0.2	0.2
Inventory (Days)	166	153	268	184	120	117	91
Debtor (Days)	36	39	113	69	50	45	40
Creditor (Days)	31	21	33	32	24	25	22
Leverage Ratio (x)							
Interest Cover Ratio	2.3	2.2	0.8	1.9	4.1	5.0	8.5
Net Debt/Equity	1.2	1.1	0.7	0.5	0.4	0.3	0.1

Consolidated - Cash Flow Statement (INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	5,716	4,702	292	3,280	16,808	13,769	20,271
Depreciation	2,042	2,076	2,094	1,859	2,262	2,998	3,474
Interest & Finance Charges	3,134	3,478	3,478	2,945	2,087	1,940	1,160
Direct Taxes Paid	-804	-1,082	124	-577	-2,248	-3,459	-5,092
(Inc)/Dec in WC	-7,175	-1,422	-974	713	1,630	245	2,457
CF from Operations	**2,913**	**7,752**	**5,015**	**8,220**	**20,538**	**15,493**	**22,269**
Others	-836	-366	-696	-414	-5,568	0	0
CF from Operating incl EO	**2,077**	**7,386**	**4,319**	**7,806**	**14,971**	**15,493**	**22,269**
(Inc)/Dec in FA	-14,606	-7,417	-6,903	-12,271	-13,138	-13,563	-8,425
Free Cash Flow	**-12,529**	**-30**	**-2,583**	**-4,465**	**1,833**	**1,931**	**13,844**
(Pur)/Sale of Investments	1,508	3,115	-3,008	-17,417	0	0	0
Others	2,009	684	409	1,277	1,179	1,233	1,375
CF from Investments	**-11,090**	**-3,618**	**-9,502**	**-28,412**	**-11,959**	**-12,330**	**-7,050**
Issue of Shares	49	46	10,907	96	0	0	0
Inc/(Dec) in Debt	5,301	647	-2,458	-805	0	-5,000	-10,000
Interest Paid	-3,329	-3,025	-3,680	-2,795	-3,265	-3,172	-2,535
Dividend Paid	-480	-556	-3	-174	-428	-482	-536
Others	8,986	18	451	25,954	6,124	6,319	4,128
CF from Fin. Activity	**10,527**	**-2,871**	**5,217**	**22,276**	**2,430**	**-2,336**	**-8,942**
Inc/Dec of Cash	**1,514**	**898**	**35**	**1,670**	**5,442**	**828**	**6,277**
Opening Balance	406	396	1,293	1,328	2,998	8,439	9,267
Closing Balance	**1,920**	**1,293**	**1,328**	**2,998**	**8,439**	**9,267**	**15,545**

N O T E S

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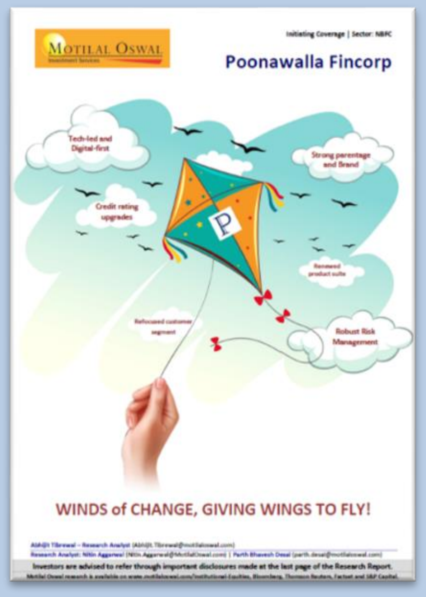

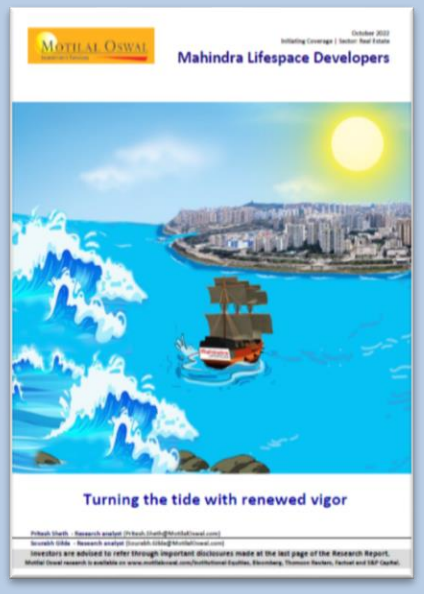

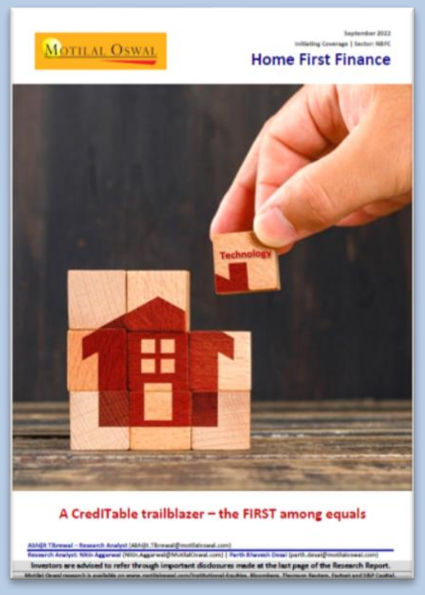

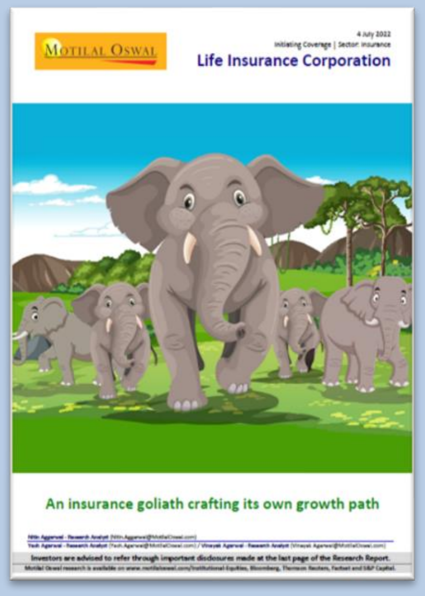

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SELL	< - 10%
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