

Phoenix Mills

BSE SENSEX
67,467

S&P CNX
20,070



Bloomberg	PHNX IN
Equity Shares (m)	179
M.Cap.(INRb)/(USD\$)	322.4 / 3.9
52-Week Range (INR)	1902 / 1186
1, 6, 12 Rel. Per (%)	2/19/16
12M Avg Val (INR M)	369

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	26.4	34.6	41.3
EBITDA	15.2	21.0	25.9
EBITDA Margin (%)	57.6	60.7	62.7
Adj PAT	7.3	9.6	13.3
Cons. EPS (Rs)	40.9	53.8	74.7
EPS Growth (%)	207.5	31.7	38.8
BV/Share (Rs)	469.4	520.5	592.3

Ratios

Net D:E	0.4	0.3	0.1
RoE (%)	9.8	10.9	13.4
RoCE (%)	9.9	10.9	13.2
Payout (%)	3.2	5.0	4.0

Valuations

P/E (x)	41.2	31.2	22.2
P/BV (x)	3.6	3.2	2.8
EV/EBITDA (x)	22.2	15.7	12.1
Div. Yield (%)	0.1	0.2	0.2

CMP: INR1,805

TP: INR1,845 (+2%)

Neutral

Delivering growth through expansion

Phoenix Mills (PML)'s FY23 annual report highlights: a) the company's strong execution capabilities, with its retail portfolio doubling in the last five years b) significant business growth in new malls, and c) Healthy growth trajectory for the retail sector

Takeaways from the Chairman's letter

- In FY19, the company laid out its ambitious vision of doubling of its retail mall portfolio. As of CY23, it has a retail portfolio of over 11 msf, which has expanded by over 5 msf since FY19.
- The management's focus is on capturing regional discretionary consumption by building a dominant consumption center.
- The land acquisitions in Indore and Ahmedabad took place in mid-CY18 and both the malls commenced operations in Dec'22 and Feb'23, respectively, demonstrating the company's capability to deliver exceptional retail destinations within the specified project timelines and budgeted costs.
- While the portfolio has almost doubled, PML has secured its pipeline to take the operational retail mall portfolio to beyond 14 msf by end-FY27.
- Currently, PML holds a leadership position in retail-led mixed-use development and has been making significant strides in other sectors, such as commercial offices, residential properties, and the hospitality portfolio.
- In the last annual report, the company had spoken about its strategic move to re-enter the F&B business. The F&B offerings have now increased to 24 outlets from 8 outlets last year, spread across 11 brands, four cities, and five of its operational malls.
- Leveraging the company's existing relationships with retailers, the management has gained good insights into their warehousing needs. It is now exploring this new asset class with the pilot project in Sohna, NCR.

Financial Highlights

- The retail mall business generated a total income of about INR17.9b, reporting a growth of 50% over FY20 and 86% YoY.
- The established malls generated a rental income of INR11.7b, while the newer malls, including Phoenix Palassio, Lucknow, Phoenix Citadel, Indore and Palladium Ahmedabad generated about INR1.4b of rental income from their early-stage operations.
- PML's flagship hotel asset – St. Regis, Mumbai – witnessed 21% YoY growth in ARR, thus enabling it to report the highest ever revenue of INR4b with EBITDA of INR1.8b, implying 45% EBITDA margin.
- Aided by strong growth in rental income, PML achieved the highest-ever annual operating free cash flow of INR14b in FY23, and this is poised to increase even more with new malls being added to the portfolio.
- Despite capex and spending on land acquisitions of INR20b in FY23, the company has maintained a robust liquidity position. Gross debt stood at INR40b – the lowest in the last five years (net debt – INR16b)

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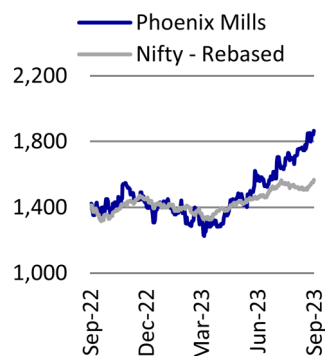
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	47.3	47.3	47.3
DII	19.9	18.1	16.7
FII	28.6	30.4	31.6
Others	4.2	4.3	4.4

FII Includes depository receipts

Stock Performance (1-year)**Encouraging ramp-up at new malls**

- Phoenix Palassio (Lucknow) has become a new benchmark for Grade A malls as it achieved an impressive feat of 95%+ trading occupancy within five quarters of getting operationalized.
- It has also surpassed INR1,000/sft trading density in the first full year of operations. The Marketcity malls achieved a similar feat within three to six years of its operations.
- The two relatively new malls in Indore and Ahmedabad are well on their way to achieving a similar benchmark, with their respective trading occupancy reaching 87% and 68%, despite having been inaugurated just a few months back.

Valuation and view

- The company has progressed well on ramping up occupancy in Indore and Ahmedabad. It has recently inaugurated Pune mall and is on track to deliver Bengaluru mall in 3QFY24. We believe that the company's growth trajectory continues to remain intact, however **a large part of earnings growth over the next two years is already priced in and we see limited upside potential in the near term.** Thus we reiterate our Neutral rating with a TP of INR1,845.
- While near-term growth is priced in, the company's upcoming mall portfolio provides strong growth visibility over the next 3-4 years. Hence, if we push up the valuation base to the end of FY27 (two-year return), taking into account a stabilized rental run rate for the upcoming malls and no pending capex, then our valuation for the retail segment increases to INR315b from INR260b in the base case. Accordingly, our TP increases to INR2,150, indicating a two-year return potential of 19%.

Exhibit 1: Our SoTP-based TP of INR1,845 implying fair valuation

Nav Calculation	Rationale	INR b	per share (INR)	%
Retail - Operational	❖ Mar'25E EBITDA discounted at cap rate of 7-7.5%	217	1,264	68
Retail - Ongoing	❖ Steady state EBITDA at a cap rate of 7-7.5% discounted back to Mar'25 using WACC of 11%	42	242	13
Total Retail		259	1,506	82
Office - Operational	❖ Mar'25E EBITDA discounted at cap rate of 8-9%	14	82	4
Office - Ongoing	❖ Steady state EBITDA at a cap rate of 8% discounted back to Mar'25 using WACC of 11%	22	129	7
Total Office		36	211	11
Hospitality	❖ EV/EBITDA multiple of 12-15x on Mar'25E EBITDA	31	182	10
Residential	❖ NPV at WACC of 11%	10	58	3
Gross Asset Value		336	1,957	106
Less: Net Debt		(19)	(112)	-6
Net Asset Value		317	1,845	100
CMP			1,805	
Up/down (%)			2	

Source: MOFSL

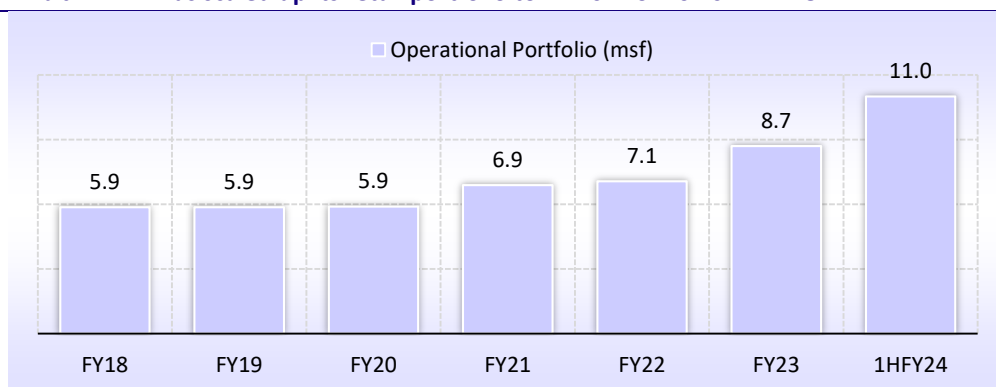
Delivers on its vision to double retail portfolio

- In FY19, the company laid out its vision to double its retail footprint by FY23 and despite economic shocks, it has increased the mall portfolio to 11msf from 6msf during this period.
- In this process, the company has now expanded its presence in five of the top-eight cities, namely Mumbai, Pune, Bengaluru, Ahmedabad, and Chennai along with malls in Indore, Lucknow, and Bareilly.
- While it has delivered on its target of doubling mall portfolio, the company has also secured the pipeline for the next leg of growth till FY27.

Business scaled up while maintaining financial prudence

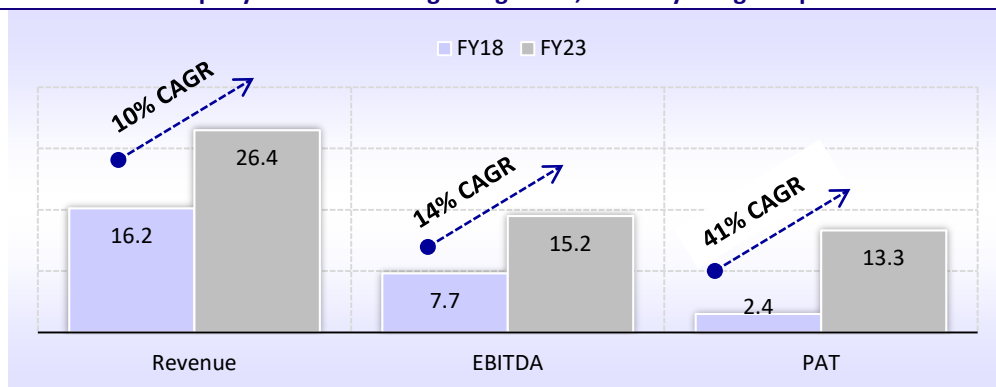
- During the five-year period, i.e., FY18-23, PML has delivered significant growth in operating income (63%) and further increased its level of operational efficiency, leading to higher operational profits (95%) and expansion in margins (20% growth from 48% margin to 58% margin).
- The expansion of the business was driven by sustained consumption at its existing retail portfolio and the successful launch of new malls in Lucknow, Indore, and Ahmedabad. Further, PML has inaugurated its new Pune asset on 1st Sep-23 and is on track for commencing operation at its new Bengaluru mall in 3QFY24.

Exhibit 2: PML has scaled up its retail portfolio to 11msf from 6msf in FY18



Source: Company, MOFSL

Exhibit 3: The company delivered strong PAT growth, aided by margin expansion



Source: Company, MOFSL

- Aided by its strategy of partnering with marquee investors, PML was able to deliver on the expansion goals without considerable increase in leverage. In fact, the net debt levels have reduced by over 40%.

Exhibit 4: The company raised ~INR50b equity, which enabled it to deliver on its expansion plans without stretching the balance sheet

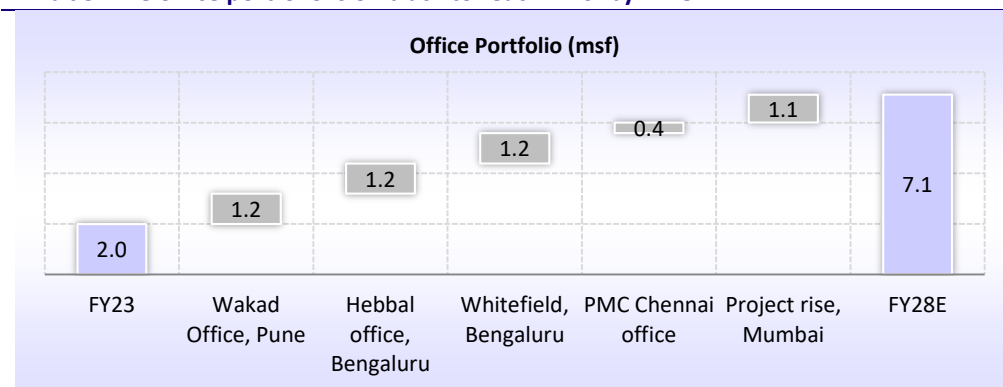
 Raised equity capital of ~Rs. 4,873 cr between Aug 2020 to Dec 2021		
PROMISE PERFORMANCE INSPIRATION		
What?	When?	How much?
Qualified Institutional Placement (QIP)	August 2020	~Rs. 1,100 cr
JV with CPPIB for Kolkata Development	May 2021	~Rs. 384 cr
Equity Infusion in existing retail platform with CPPIB (ISML)	May 2021 & Dec 2021	~Rs. 539 cr
Retail Platform with GIC	June 2021 & June 2022	~Rs. 1,500 cr
JV with CPPIB for Lower Parel Development	November 2021	~Rs. 1,350 cr

Source: Company, MOFSL

Adopting “Mall of the future” strategy

- PHNX has historically been a pure-play retail company with office exposure restricted to some standalone offices around High Street Phoenix and Palladium, Mumbai.
- But it is now aiming to achieve the next leg of growth through its “Mall of the future” strategy, which refers to developing a retail-led mixed-used consumption centre.
- PML is building and operating offices on top of/adjacent to existing and upcoming malls, which helps attract higher footfalls and also lead to improvement in the blended yield of the assets. With land already paid out for, the office assets once constructed will generate 20-25% yield on construction vs. 15-20% for a mall
- The company is building ~5msf of office space across its retail assets over the next five years to increase its office portfolio to 7msf.

Exhibit 5: The office portfolio is on track to reach 7msf by FY28



Source: Company, MOFSL

Tapping adjacencies

- In addition to expanding its office segment, PML is leveraging its capabilities by tapping adjacencies to its core business. The company has acquired 5.5 acres land in Kolkata to develop premium residential project with ~1msf of development potential.
- It is also exploring the warehousing segment through its pilot project in Sohna (NCR), where it acquired 33 acres of land.
- PML plans to add another hotel (Grand Hyatt) to its portfolio at its existing mall – MarketCity, Bengaluru, which will have ~400 rooms.

Encouraging ramp-up witnessed in new malls

- In the last three years, PML operationalized three new malls – one each in Lucknow, Indore, and Ahmedabad with the latter two commencing in the latter part of FY23.
- Phoenix Palassio (Lucknow) has become a new benchmark for Grade A malls as it achieved an impressive feat of 95%+ trading occupancy within five quarters of getting operationalized.
- The two relatively new malls at Indore and Ahmedabad are also on their way to meet a similar benchmark as their respective trading occupancy ramped up to 87% and 68%, despite getting inaugurated just a few months back.

Palassio beats MarketCity's performance

- PML inaugurated its flagship mall in Lucknow – Phoenix Palassio – in 2HFY21 with 90%+ pre-leasing, and since then it has significantly scaled up its performance across key metrics.
- The mall has achieved 95% trading occupancy within the first five quarters and also crossed INR1,000/sft trading density in the first full year of operations. The MarketCity mall achieved a similar feat within three to six years of its operations.
- The mall has reached INR2b of quarterly consumption and INR1b of annualized EBITDA within one year of its operations. The MarketCity mall took five to eight years to achieve the same milestone.
- Phoenix Palassio Lucknow is now only slightly behind Phoenix MarketCity, Bengaluru, in terms of trading density.

Exhibit 6: Palassio hitting TD of INR1,000 pspm in the second full year of operations vs. 3-6 years taken by other MarketCity Malls

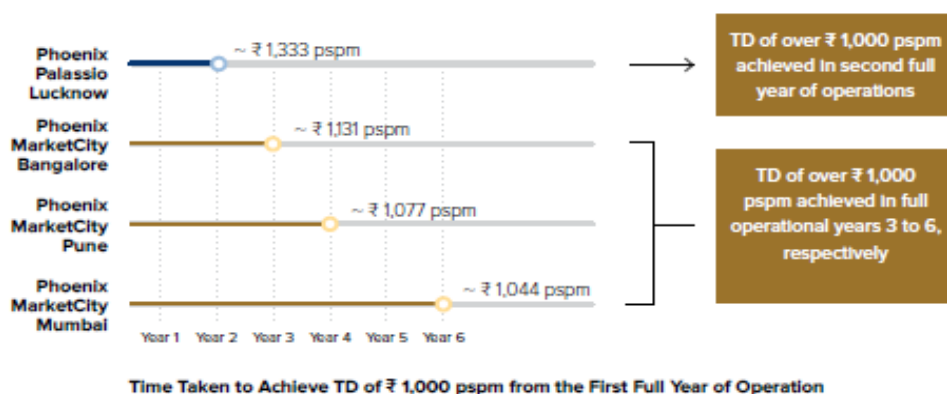
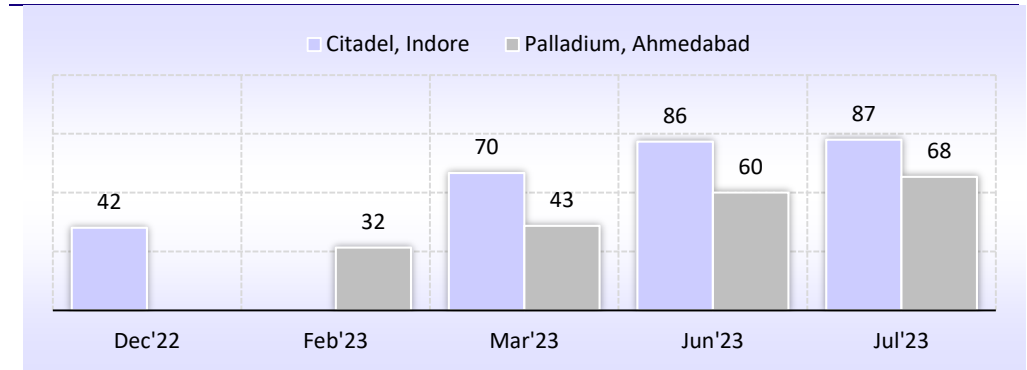
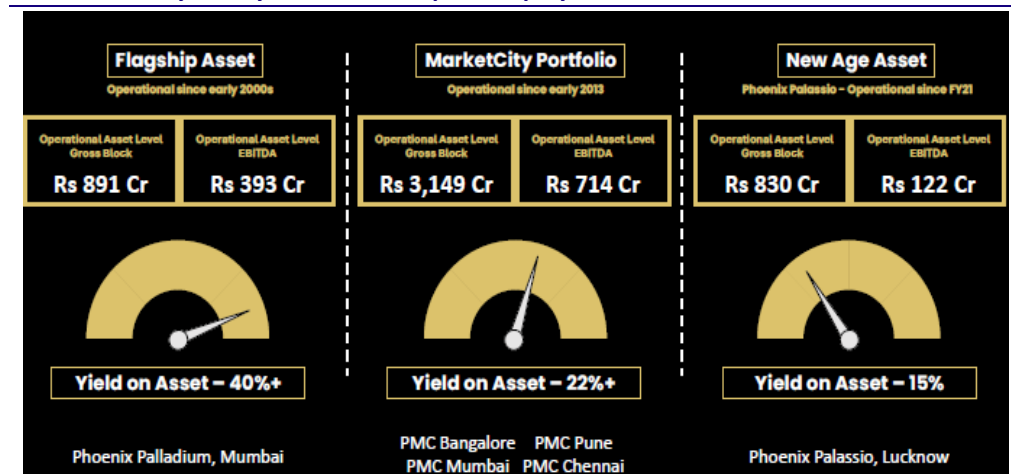


Exhibit 7: Sharp ramp-up in trading occupancy at new malls (%)

Source: Company, MOFSL

- The ramp-up in performance is also reflected in yield on cost, which stands at a healthy level of 15% vs. 22% for MarketCity portfolio, which is operational since early CY13.

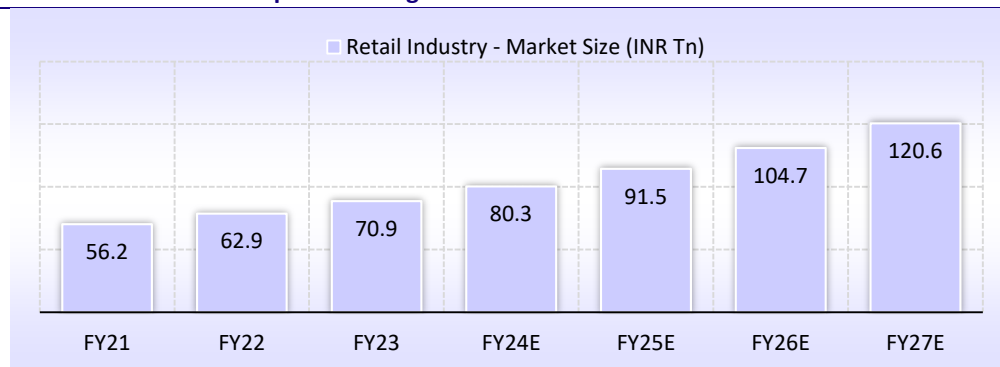
Exhibit 8: Life cycle of yield on total capital employed

Source: Company, MOFSL

Sector poised for strong growth in the medium term

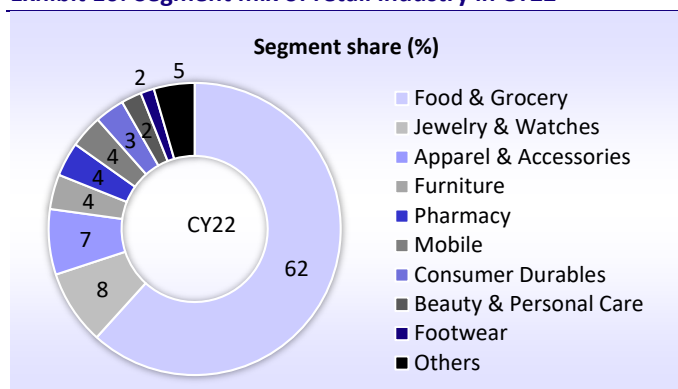
- Despite inflationary pressures, the retail sector has demonstrated impressive growth, clocking a value of INR62.90t in FY22. Further, it is anticipated to witness a CAGR of 14%, leading to a projected value of INR120.59t by FY27, on the back of factors, such as expanding urbanization, rising household income, enhanced connectivity of rural consumers, and a surge in consumer spending.

Exhibit 9: Retail sector is poised to register a CAGR of 14% over medium term



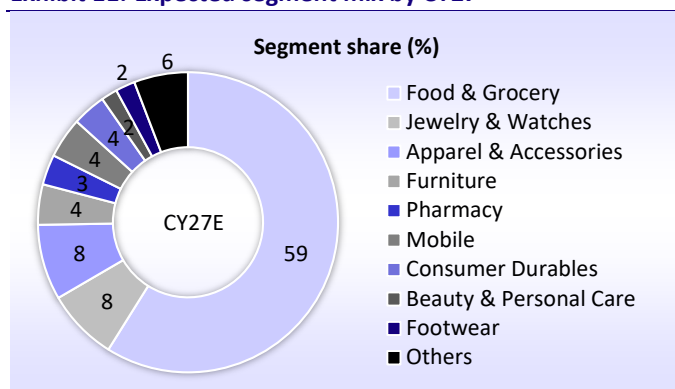
- The Indian retail industry encompasses a diverse range of segments, each with varying market shares. As of FY22, the food & grocery segment dominated the industry with a 61.67% market share, followed by Jewelry and apparel & accessories, which accounted for a share of 8.25% and 7.25%, respectively.
- Aided by sustained discretionary spending post the pandemic, the retail sales and consumer spending, which included categories such as clothing, footwear, restaurants, and hotels witnessed annual growth ranging from 18% to 35% in CY22.

Exhibit 10: Segment mix of retail industry in CY22



Source: Company, MOFSL

Exhibit 11: Expected segment mix by CY27

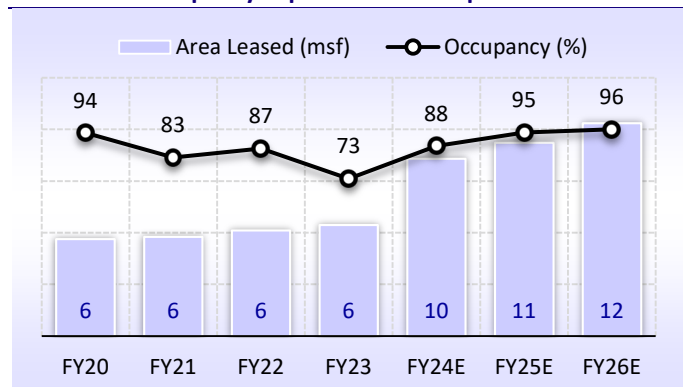


Source: Company, MOFSL

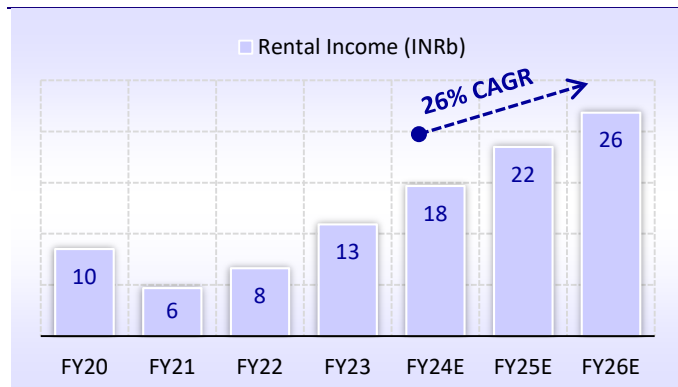
PML to deliver 26% CAGR in rental income over FY23-26E

- The company has progressed well on ramping up occupancy in Indore and Ahmedabad and is on track to deliver Pune and Bengaluru malls in 3QFY24.
- PML's new malls in Pune and Bengaluru have reported healthy pre-leasing of 90%+
- Strong pre-leasing trend across new malls could lead to shorter stabilizing period and higher revenue generation from the very first day. We expect new malls to trade at an occupancy of 85-90% within a year of operations.

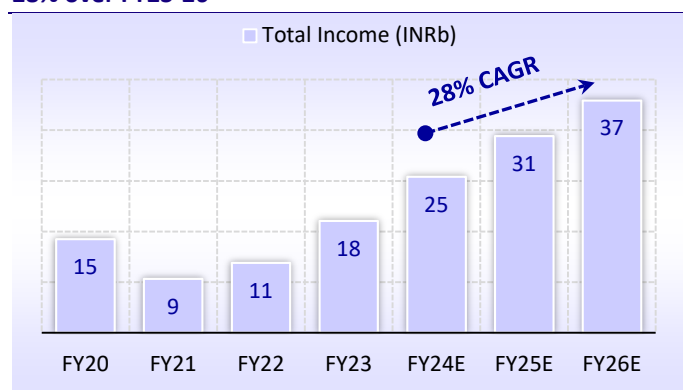
- Thus, PML retail portfolio is expected to report a CAGR of 26% in rental income over FY23-26 to INR26b, driven by (i) increased occupancy in existing malls and (ii) commencement of rentals from new mall.

Exhibit 12: Occupancy expected to inch up toward 96%

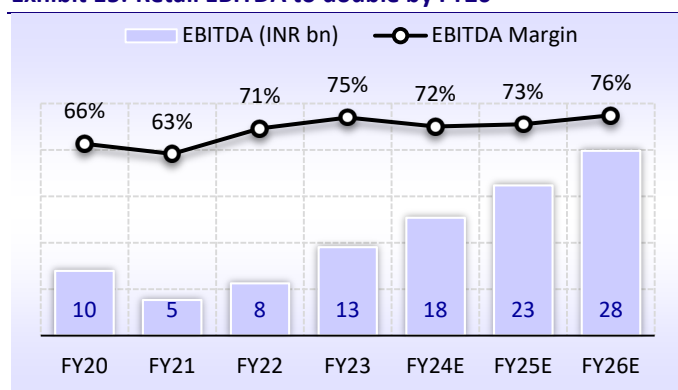
Source: MOFSL, Company

Exhibit 13: Rental income of retail portfolio to report 26% CAGR over FY23-26

Source: MOFSL, Company

Exhibit 14: Expect PML's total income to register a CAGR of 28% over FY23-26

Source: MOFSL, Company

Exhibit 15: Retail EBITDA to double by FY26

Source: MOFSL, Company

ESG, CSR & Diversity



Environment

- FY23 marked the beginning of PML's journey toward achieving Green Building Certifications at its retail assets. About 50% of operational portfolio (retail + commercial offices), i.e., ~10 msft is targeted to be USGBC LEED Certified in 2027.
- ~30% of energy requirement for retail portfolio is met through green energy.
- 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, Mumbai, and Phoenix Palassio, Lucknow.

Governance Pointers

- PML has a multi-tiered governance structure with well-defined roles and responsibilities. Of the total eight Board members, four are Independent Directors, including one woman director.
- As per the auditor report, the company has complied with all the statutory and regulatory compliances.

CSR and Social

- 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.
- Out of the total CSR obligation of INR1.5b in FY23, the company had spent INR35m.

Financials and valuations

Consolidated - Income Statement

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	19,816	19,411	10,450	14,835	26,383	34,637	41,315
Change (%)	22.3	-2.0	-46.2	42.0	77.8	31.3	19.3
Cost of Materials/Construction	2,189	1,959	769	1,030	1,489	2,405	2,868
Employees Cost	1,615	1,655	1,125	1,569	2,325	3,117	3,718
Other Expenses	6,081	6,126	3,614	4,896	7,381	8,108	8,821
Total Expenditure	9,884	9,740	5,508	7,496	11,194	13,630	15,408
% of Sales	49.9	50.2	52.7	50.5	42.4	39.3	37.3
EBITDA	9,932	9,671	4,942	7,339	15,189	21,008	25,907
Margin (%)	50.1	49.8	47.3	49.5	57.6	60.7	62.7
Depreciation	2,042	2,076	2,094	1,859	2,278	3,396	3,872
EBIT	7,889	7,595	2,848	5,481	12,911	17,611	22,035
Int. and Finance Charges	3,506	3,478	3,478	2,945	3,412	3,408	2,770
Other Income	851	585	923	744	1,163	1,047	1,306
PBT bef. EO Exp.	5,235	4,702	292	3,280	10,663	15,250	20,570
EO Items	481	78	0	0	6,052	0	0
PBT after EO Exp.	5,716	4,780	292	3,280	16,714	15,250	20,570
Total Tax	1,099	1,221	-47	801	1,989	3,831	5,167
Tax Rate (%)	19.2	25.4	-16.0	24.4	18.7	25.1	25.1
Share of associate	-760	-538	138	202	51	359	508
Minority Interest	-353	-326	-99	308	1,426	2,167	2,568
Reported PAT	4,210	3,347	576	2,374	13,350	9,611	13,343
Adjusted PAT	3,822	3,297	576	2,374	7,298	9,611	13,343
Change (%)	57.8	-13.7	-82.5	311.8	207.5	31.7	38.8
Margin (%)	19.3	17.0	5.5	16.0	27.7	27.7	32.3

Consolidated - Balance Sheet

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	307	307	344	357	357	357	357
Total Reserves	34,435	38,268	50,044	65,468	83,440	92,569	1,05,377
Net Worth	34,741	38,575	50,388	65,825	83,797	92,927	1,05,734
Minority Interest	12,233	10,660	11,014	24,288	26,963	35,449	42,145
Total Loans	42,437	43,084	40,626	39,821	42,593	37,593	27,593
Deferred Tax Liabilities	-1,387	-585	-1,215	-1,209	1,238	1,238	1,238
Capital Employed	88,025	91,734	1,00,812	1,28,725	1,54,591	1,67,206	1,76,710
Gross Block	73,788	75,124	84,595	89,428	1,23,156	1,48,556	1,61,206
Less: Accum. Deprn.	12,277	14,309	15,582	17,409	19,687	23,084	26,956
Net Fixed Assets	61,511	60,815	69,013	72,019	1,03,468	1,25,472	1,34,250
Goodwill on Consolidation	3,713	3,058	3,058	3,058	6,176	6,176	6,176
Capital WIP	8,963	15,343	12,740	20,486	22,947	11,109	6,884
Total Investments	7,450	5,913	5,756	23,173	12,823	13,182	13,690
Curr. Assets, Loans&Adv.	18,133	19,096	22,110	23,354	28,843	36,221	43,268
Inventory	8,987	8,161	7,682	7,498	12,117	10,269	10,553
Account Receivables	1,955	2,058	3,237	2,799	2,382	4,270	4,528
Cash and Bank Balance	1,920	1,407	5,139	5,926	6,302	9,558	15,793
Loans and Advances	5,271	7,470	6,053	7,131	8,041	12,123	12,394
Curr. Liability & Prov.	11,744	12,490	11,865	13,366	19,665	24,953	27,558
Account Payables	1,700	1,101	950	1,299	1,585	2,241	2,533
Other Current Liabilities	9,394	10,628	9,580	10,499	16,251	19,051	20,657
Provisions	651	761	1,335	1,568	1,829	3,662	4,368
Net Current Assets	6,388	6,606	10,245	9,988	9,178	11,268	15,710
Appl. of Funds	88,025	91,735	1,00,812	1,28,725	1,54,592	1,67,206	1,76,710

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	24.9	21.5	3.4	13.3	40.9	53.9	75.8
Cash EPS	38.2	35.0	15.5	23.7	53.6	73.0	97.5
BV/Share	226.4	251.4	293.2	368.7	469.4	520.7	593.5
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	5.0	4.0
Valuation (x)							
P/E	51.4	59.6	381.7	96.3	41.3	33.4	23.7
Cash P/E	33.5	36.6	82.4	54.0	31.5	24.7	18.5
P/BV	5.7	5.1	4.4	3.5	3.6	3.5	3.0
EV/Sales	12.0	12.3	24.4	17.7	12.8	10.1	8.1
EV/EBITDA	23.9	24.6	51.7	35.8	22.3	16.6	12.9
Dividend Yield (%)	0.2	0.3	0.0	0.1	0.1	0.2	0.2
Return Ratios (%)							
RoE	12.1	9.0	1.3	4.1	9.8	10.9	13.6
RoCE	9.9	7.7	5.1	4.8	9.9	10.9	13.2
RoIC	10.2	8.2	4.5	5.3	11.0	10.7	12.1
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	168	108	93
Debtor (Days)	36	39	113	69	33	45	40
Creditor (Days)	31	21	33	32	22	24	22
Leverage Ratio (x)							
Interest Cover Ratio	2.3	2.2	0.8	1.9	3.8	5.2	8.0
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	FY23	FY24E	FY25E
OP/(Loss) before Tax	5,716	4,702	292	3,280	16,714	15,250	20,570
Depreciation	2,042	2,076	2,094	1,859	2,278	3,396	3,872
Interest & Finance Charges	3,134	3,478	3,478	2,945	2,249	2,361	1,465
Direct Taxes Paid	-804	-1,082	124	-577	-1,989	-3,831	-5,167
(Inc)/Dec in WC	-7,175	-1,422	-974	713	1,187	1,166	1,792
CF from Operations	2,913	7,752	5,015	8,220	20,439	18,343	22,532
Others	-836	-366	-696	-414	-6,052	0	0
CF from Operating incl EO	2,077	7,386	4,319	7,806	14,387	18,343	22,532
(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	1,249	4,781	14,107
(Pur)/Sale of Investments	1,508	3,115	-3,008	-17,417	0	0	0
Others	2,009	684	409	1,277	1,163	1,047	1,306
CF from Investments	-11,090	-3,618	-9,502	-28,412	-11,975	-12,516	-7,119
Issue of Shares	49	46	10,907	96	0	0	0
Inc/(Dec) in Debt	5,301	647	-2,458	-805	2,772	-5,000	-10,000
Interest Paid	-3,329	-3,025	-3,680	-2,795	-3,412	-3,408	-2,770
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	5,055	-2,571	-9,178
Inc/Dec of Cash	1,514	898	35	1,670	7,468	3,256	6,235
Opening Balance	406	396	1,293	1,328	2,998	10,465	13,722
Closing Balance	1,920	1,293	1,328	2,998	10,465	13,722	19,956

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NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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