

Washout performance, as expected...

Phoenix Mills (PML) reported a washout quarter as expected, owing to the impact of Covid-19, which led to a decline in its retail and hospitality assets revenues and profitability coupled with zero revenues in the residential segment. Reported revenues de-grew ~78% YoY to ₹ 134.7 crore, with core portfolio (commercial + retail + hospitality) revenues down 67% YoY. Reported EBITDA margin was up 460 bps YoY to 52.2%, given cost rationalisation. The company reported a loss of ₹ 42.2 crore.

Malls reopening to aid cash flows

PML reported retail rental income decline of 69.8% YoY to ₹ 88.5 crore mainly due to Covid-19 led lockdown and rental waiver, thereof. During the quarter, the company had a cash burn of ₹ 65 crore, also aided by I-T refund of ₹ 40 crore. The company, however, indicated that the cash burn rate has peaked and is likely to reduce as malls recommencement and rental begin to kick in. We note that PML has agreed to 50% rental waiver in the lockdown period for 75-80% retailers. For a further period of up to six months in FY21, rentals are expected to be restructured with reduction in minimum guarantee by ~25-30% but with higher revenue share. Near term pain is imminent. We expect ~40% decline on like to like basis in rental revenues (ex-CAM charges) in FY21. Resumption of Mumbai & Pune malls (contributing ~60% of rentals currently), from August 5, 2020 is a key positive. Over the medium term, we expect retail rental income to grow at a CAGR of 13% to ₹ 1878 crore in FY20-25E.

Commercial stays resilient

Commercial remained resilient with revenue growth of ~5% YoY at ₹ 38.2 crore. The company also has 1.08 msf office portfolio under development between Fountainhead – Tower 2&3 (0.66 msf) and at Phoenix MarketCity, Chennai (0.42 msf). Tower 2 construction is complete and the company is witnessing strong interest. Tower 3's construction is expected to be completed over the next three to four months. Overall, these assets are expected to be ready for fit-outs in the next two to three quarters.

Valuation & Outlook

PML remains a quasi play on India's consumption story, notwithstanding a steep impact on retail & hospitality portfolio in FY21, given the quality of assets, healthy balance sheet & strategic expansion plans. With only five to six major retail mall developers currently in India, and given PML's USP of operating large format properties efficiently, it is likely to emerge as a superior player in the medium to long term. Recommencement of key malls of Mumbai and Pune are likely to provide some relief in cash flows. We maintain **BUY** rating with a revised SoTP based target price of ₹ 725/share.

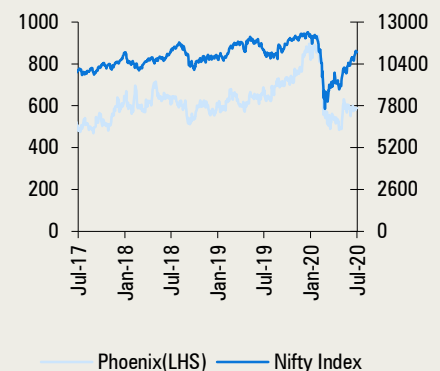


Particulars	
Particular	Amount (₹ crore)
Market Capitalization	9,454.2
Total Debt	4,573.2
Cash	140.7
EV	13,886.7
52 week H/L (₹)	980 / 466
Equity capital	30.7
Face value	₹ 2

Key Highlights

- While near term pain is imminent, over the medium term we expect retail rental income to grow at a CAGR of 13% to ₹ 1878 crore in FY20-25E.
- Maintain BUY with target price of ₹ 725/share

Price Chart



Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales (₹ crore)	1,619.8	1,981.6	1,941.1	1,302.0	2,075.8	3.4%
EBITDA (₹ crore)	777.4	993.2	967.1	562.5	1,060.7	4.7%
EBITDA margin (%)	48.0	50.1	49.8	43.2	51.1	
Adj. Net Profit (₹ crore)	242.2	372.9	327.0	60.5	387.3	8.8%
Adj. EPS (₹)	15.8	24.4	21.4	4.0	25.3	
P/E (x)	39.0	22.5	28.2	156.2	24.4	
EV/EBITDA (x)	16.4	13.3	14.2	24.7	13.1	
Price / Book (x)	3.3	2.7	2.6	2.5	2.3	
RoCE (%)	8.8	9.6	8.4	4.0	8.4	
RoE (%)	8.5	10.7	8.8	1.6	9.3	

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q4FY19	YoY (Chg %)	Q4FY20	QoQ (Chg %)	Comments
Income from Operation	134.7	174.3	615.0	-78.1	399.2	-66.3	Core portfolio (commercial + retail + hospitality) revenues declined by 67% YoY to ₹ 134.7 crore, with zero resi revenues
Other Income	13.1	10.0	15.4	-14.6	10.4	26.3	
Total raw material Expenses	-0.8	0.0	135.8	-100.6	15.9	-105.1	
Employee cost	20.4	30.0	38.2	-46.7	35.4	-42.4	
Other expenditure	35.9	60.0	103.3	-65.2	113.3	-68.3	
EBITDA	70.3	69.8	292.7	-76.0	204.3	-65.6	
EBITDA Margin (%)	52.2	40.0	47.6	457 bps	51.2	99 bps	
Depreciation	50.2	54.5	50.7	-0.9	54.5	-7.9	
Interest	86.9	55.0	87.1	-0.2	84.0	3.5	
PBT	-53.8	-29.8	170.3	-131.6	76.1	-170.6	
Taxes	-3.3	0.0	23.4	-113.9	27.9	-111.7	
Reported PAT	-42.4	-31.4	130.4	-132.5	46.7	-190.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY19	FY20	FY21E			FY22E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	1981.6	1941.1	1415.8	1302.0	-8.0	2,049.2	2075.8	1.3	Realigned numbers post Q1 results
EBITDA	993.2	967.1	531.6	562.5	5.8	1,040.7	1060.7	1.9	
EBITDA Margin (%)	50.1	49.8	37.5	43.2	571 bps	52.4	52.1	-28 bps	
PAT	421.0	334.7	53.9	60.5	12.3	375.8	387.3	3.1	
EPS (₹)	27.5	21.8	3.5	3.9	12.3	24.5	25.2	3.1	

Source: Company, ICICI Direct Research

Conference call Highlights

- **Residential business:** No sales volume was reported this quarter. In order to increase traction at its residential properties and to increase sales velocity, the company has reconfigured its flat size to 3-4.5 BHKs from the earlier 6 to 8 BHKs and expects to see traction in closing sales and collections in the coming months. It has concluded one transaction in Q2 so far while another three are in final stages cumulating to 15000 sq feet of sales volume at average price of ₹ 14-15k/ square feet
- **Hospitality portfolio:** Hospitality business revenues fell 90% YoY to ₹ 8 crore in Q1FY20. St Regis continues to provide minimal occupancies at lower ARR for Covid-19, as mandated by government. In Agra, Courtyard Marriot was shut by order of the government in April and May 2020. The company has further decided to keep its hotel shut during the off season of June, July, 2020
- **Cash flows:** Retail segment had collections of ₹ 40 crore (largely for Q1). The office rental collection was ₹ 33 crore. Collections for hospitality was at ₹ 11.8 crore hotels with residential collection of ₹ 10 crore. Furthermore, the company received I-T refunds of ₹ 40 crore. Thus, total inflows were ₹ 135 crore. Total cash outflow was ~₹ 200 crore (capex ₹ 66 crore, other operating expenses ₹ 85 crore and statutory dues of ₹ 46 crore). Thus, the company had a cash burn of ₹ 65 crore. PML, however, indicated that the cash burn rate has peaked and is likely to reduce as malls recommencement and rental begin to kick in
- **Fund raise:** Total capex is likely at ₹ 300-320 crore but could be impacted if contractors fail to ramp up. The company indicated that it has enough cash for construction activity nine to 12 months. It is however, looking at some equity raise, after shareholder approval, in order to have better cash position to make war chest amid uncertain time. It is also looking for brownfield growth opportunity when normalcy returns in four to six months

Company Analysis

Exhibit 3: Retail income trend

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY Growth (%)	QoQ Growth (%)
Rental Income (₹ crore)							
HSP & Palladium	88.1	87.9	94.6	78.0	34.4	(61.0)	(55.9)
PMC Mumbai	32.3	32.0	33.9	28.3	8.7	(73.1)	(69.3)
PMC Bangalore	35.9	36.0	40.0	30.7	12.0	(66.6)	(60.9)
PMC Chennai*	39.4	47.5	48.2	38.5	13.4	(66.0)	(65.2)
PMC Pune	43.2	42.7	45.8	35.0	12.5	(71.1)	(64.3)

Source: Company, ICICI Direct Research

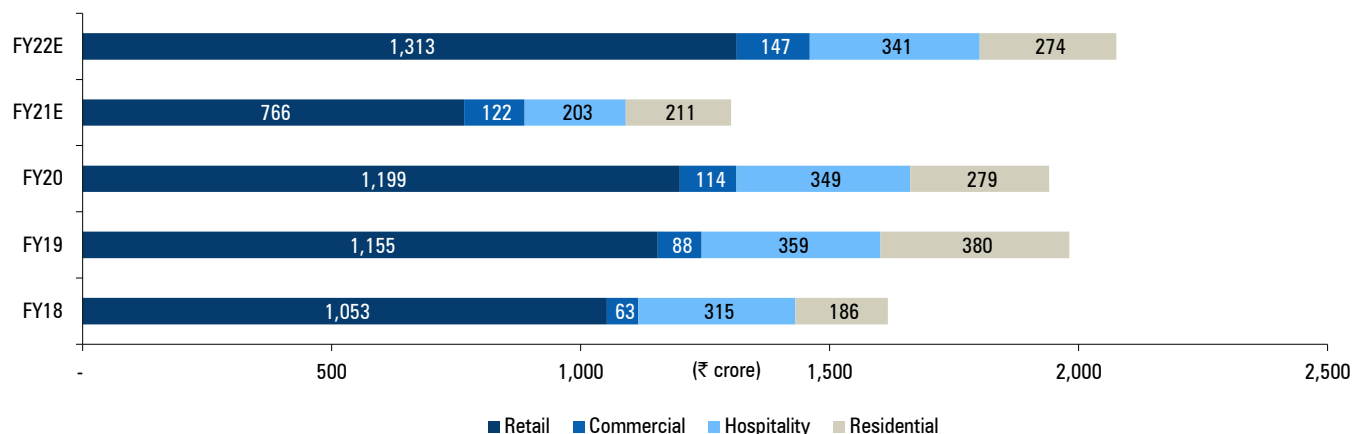
Exhibit 4: Commercial portfolio

	Location	Total Area (msf)	Area Sold(msf)	Net Leasable Area (msf)	Area Leased (msf)	Average Rate (₹/sq ft.)
Operational						
Phoenix Paragon Plaza	Mumbai	0.44	0.12	0.31	0.22	124
The Centrium	Mumbai	0.28	0.16	0.12	0.08	NA
Art Guild House	Mumbai	0.80	0.18	0.62	0.55	106
Phoenix House	Mumbai	0.10	-	0.11	0.08	NA
Fountainhead - Tower 1	Pune	0.17	-	0.17	0.16	86
Total Operational		1.79	0.46	1.33	1.09	

Source: Company, ICICI Direct Research

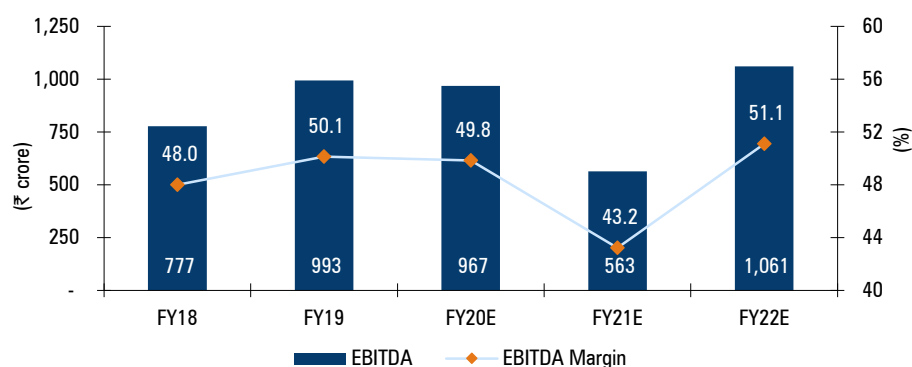
Financial story through charts

Exhibit 5: Revenue trend



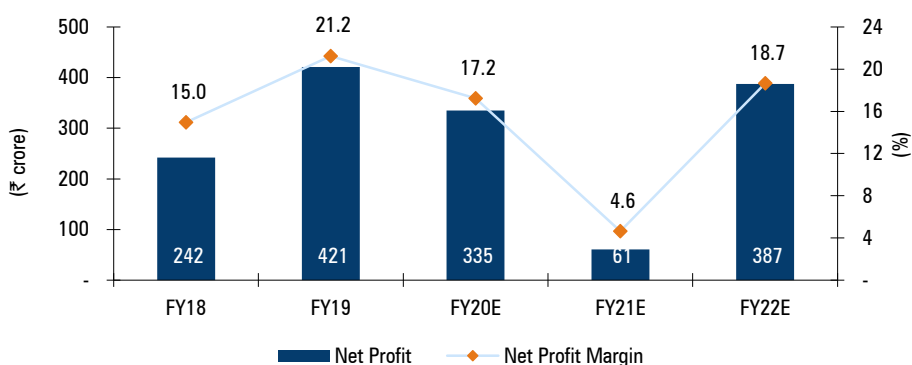
Source: Company, ICICI Direct Research

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, notwithstanding a steep impact on retail & hospitality portfolio in FY21, given the quality of assets, healthy balance sheet & strategic expansion plans. With only five to six major retail mall developers currently in India, and given PML's USP of operating large format properties efficiently, it is likely to emerge as a superior player in the medium to long term. Recommencement of key malls of Mumbai and Pune are likely to provide some relief in cash flows. Near term pain is imminent. We expect ~40% decline on like to like basis) in retail rental revenues (ex- CAM charges) in FY21. However, over the medium term, we expect retail rental income to grow at a CAGR of 13% to ₹ 1878 crore in FY20-25E. We maintain **BUY** rating with a revised SoTP based target price of ₹ 725/share.

Exhibit 8: Valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Value (₹ crore)	Value/ share (₹/ share)
Retail	Leasable area (msf)					
Retail Operational	5.9	10376	3407	6969	5574	349
Retail under construction	4.5	3562	1168	2395	1576	99
Retail Total	10.4	13,939	4,575	9,364	7,149	448
Commercial	Leasable area (msf)					
Commercial Operational	1.0	1524	117	1407	1407	88
Commercial under construction	1.8	1297	0	1297	1190	75
Commercial Total	2.8	2,821	117	2,704	2,597	163
Hospitality	No of keys					
Hospitality Total	588	2,133	546	1,587	1,271	80
Residential	Saleable area (msf)					
Residential Total	3.7	862	165	697	550	34
Grand Total	17.0	19,754		14,352	11,567	725
Rounded Off target price						725

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Net Sales	1,981.6	1,941.1	1,302.0	2,075.8
Other Income	85.1	58.5	56.6	59.4
Total revenues	2,066.7	1,999.6	1,358.6	2,135.2
Raw Material Expenses	218.9	195.9	131.4	209.5
Employee Cost	161.5	165.5	123.7	166.1
Other Expenditure	608.0	612.6	484.4	639.6
Total Operating Expenditure	988.4	974.0	739.4	1,015.1
EBITDA	993.2	967.1	562.5	1,060.7
Interest	350.6	347.8	327.8	310.6
Depreciation	204.2	207.6	229.3	260.7
PBT	571.6	478.0	62.0	548.7
Tax	109.9	122.1	15.5	137.2
Reported PAT	421.0	334.7	60.5	387.3
EPS	27.5	21.9	4.0	25.3

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Profit after Tax	421.0	334.7	60.5	387.3
Depreciation	204.2	207.6	229.3	260.7
Interest paid	350.6	347.8	327.8	310.6
CF before wc changes	1,005.6	1,033.4	619.1	1,120.1
Net Increase in CA	(465.7)	7.7	514.3	(489.7)
Net Increase in CL	(251.8)	(255.4)	(302.9)	353.4
Net CF from op. activities	207.7	663.7	815.0	846.6
Purchase of Fixed Assets	(1,464.5)	(781.9)	(647.6)	(707.5)
(Purchase)/Sale of Inv.	(1,234.4)	44.2	-	50.0
Net CF from inv. activities	(1,099.2)	(705.7)	(516.9)	(577.6)
Change in Debt	420.5	329.7	(40.6)	4.1
Interest paid	(332.9)	(347.8)	(327.8)	(310.6)
Net CF from fin. activities	1,052.7	(15.1)	(372.6)	(286.3)
Net Cash flow	161.2	(57.1)	(74.5)	(17.4)
Opening Cash	30.8	192.0	140.7	66.3
Closing Cash	192.0	140.7	66.3	48.9

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Equity Capital	30.7	30.7	30.7	30.7
Reserves & Surplus	3,443.5	3,667.7	3,724.0	4,131.5
Networth	3,474.1	3,698.4	3,754.7	4,162.2
Total Debt	4,243.5	4,573.2	4,532.6	4,536.7
Other financial liabilities	176.4	203.3	142.7	227.5
Deferred Tax Liability	0.3	2.8	2.8	2.8
Source of Funds	9,118	9,756	9,713	10,267
Gross Block	7,370.4	7,514.8	7,644.6	8,690.9
Less: Accumulated Dep	1,221.5	1,435.3	1,664.6	1,925.4
Net Block	6,148.9	6,079.5	5,980.0	6,765.6
Capital WIP	896.0	1,534.1	2,051.9	1,713.1
Total Fixed Assets	7,044.9	7,613.6	8,031.9	8,478.7
Investments	472.2	428.0	428.0	378.0
Inventories	898.6	816.1	535.1	796.2
Trade Receivables	195.5	201.7	128.4	204.7
Loans & Advances	21.2	9.7	6.5	10.4
Cash & Bank Balances	192.0	140.7	66.3	48.9
Other Current Assets	285.8	406.4	249.7	398.1
Total Current Assets	1,865.9	1,736.3	1,032.6	1,458.3
Trade Payable	147.7	110.3	74.0	118.0
Provisions	63.0	76.1	47.5	64.3
Other Current Liabilities	787.3	526.9	349.6	557.3
Total Current Liabilities	998.0	713.3	471.0	739.6
Net Current Assets	867.9	1,023.0	561.6	718.6
Application of Funds	9,118	9,756	9,713	10,267

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Per Share Data				
Reported EPS	27.5	21.9	4.0	25.3
Cash EPS	40.8	35.4	18.9	42.3
BVPS	226.9	241.5	245.2	271.8
Operating Ratios				
EBITDA / Net Sales	50.1	49.8	43.2	51.1
PAT / Net Sales	18.8	16.8	4.6	18.7
Return Ratios				
RoE	10.7	8.8	1.6	9.3
RoCE	9.6	8.4	4.0	8.4
RoC	11.5	10.8	5.0	10.5
Valuation Ratios				
EV / EBITDA	13.3	14.2	24.7	13.1
P/E	22.5	28.2	156.2	24.4
EV / Net Sales	6.7	7.1	10.7	6.7
Market Cap / Sales	4.8	4.9	7.3	4.6
Price to Book Value	2.7	2.6	2.5	2.3
Turnover Ratios				
Asset turnover	0.2	0.2	0.1	0.2
Gross Block Turnover	0.3	0.2	0.2	0.2
Solvency Ratios				
Net Debt / Equity	1.1	1.2	1.2	1.1
Current Ratio	1.4	2.0	2.0	1.9
Quick Ratio	0.5	0.9	0.8	0.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors 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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, CFA, MBA (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH00000990. ICICI Securities Limited Sebi Registration is INZ00183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.