

Maharashtra malls reopening to be key...

About the stock: Phoenix Mills Ltd (PML) is a leading retail mall developer and operator in India. It is into retail-led, mixed-use properties and has developed 17.5+ mn sq ft of retail, commercial, hospitality, and residential asset class.

- PML has an operational retail area of ~7 mn sq ft spread over nine operational malls and is developing another five malls with 6+ mn sq ft of retail space. It has a GLA of 1.6 mn sq ft in the commercial segment. It plans to add 5.3 mn sq ft of commercial office space

Q1FY22 Results: PML's Q1FY22 results were impacted by lockdowns.

- Retail revenues grew ~12% YoY but were down ~57% QoQ at ₹ 115.3 crore while hospitality revenues were up 57% YoY but declined ~49% QoQ at ₹ 15.1 crore. Commercial remained a resilient segment, which witnessed revenue growth of ~61% YoY at ₹ 36.2 crore. Revenue recognition of ₹ 37.6 crore in residential segment vs. nil revenues in Q1FY21
- EBITDA margins at 37.3% were down ~15 percentage points owing to negative operating leverage, resulting in losses at the bottomline level

What should investors do? PML's share price has grown 121% over the past five years (from ~₹ 396 in August 2016 to ~₹ 877 levels in August 2021).

- We maintain our BUY rating on the company

Target Price and Valuation: We value PML at ₹ 1020/share.

Key triggers for future price performance:

- Focused on core competence in development and operation of retail malls; under-development retail GLA of ~6 mn sq ft to aid growth. Over the medium term, we expect retail rental income to grow at a CAGR of ~16% to ₹ 2175 crore in FY20-25E
- Decline in Covid-19 cases and reopening of economies to fully operationalise its mall and hospitality asset; rentals and ARR to improve
- Healthy balance sheet and strategic expansion plans to add 1 msf of retail area annually

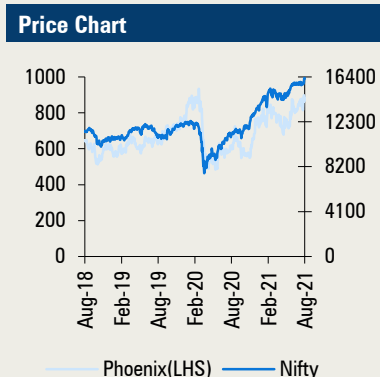
Alternate Stock Idea: Besides PML, we like Oberoi Realty in the real estate space.

- Quality play on MMR premium real estate
- BUY with a target price of ₹ 830



Particulars	Amount (₹ crore)
Market Capitalization	15,074.9
Total Debt	3,757.0
Cash	513.9
EV	18,318.0
52 week H/L (₹)	914 / 542
Equity capital	34.4
Face value	₹ 2

Shareholding pattern	Sep-20	Dec-20	Mar-21	Jun-21
	Promoters	45.6	45.5	45.5
DII	15.7	16.8	16.0	15.7
FII	33.9	33.5	34.3	34.4
Other	4.9	4.2	4.2	4.3



Key Risks

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

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales (₹ crore)	1,981.6	1,941.1	1,073.3	-10%	1,693.4	2,530.0	54%
EBITDA (₹ crore)	993.2	967.1	494.2	-9%	861.4	1,319.7	63%
EBITDA margin (%)	50.1	49.8	46.0		50.9	52.2	
Adj. Net Profit (₹ crore)	372.9	327.0	52.6	-21%	235.1	576.8	231%
Adj. EPS (₹)	24.4	21.4	3.1		13.7	33.6	
P/E (x)	31.9	40.1	286.6		64.1	26.1	
EV/EBITDA (x)	19.0	19.7	36.9		21.5	14.0	
Price / Book (x)	3.9	3.6	3.1		3.0	2.7	
RoCE (%)	9.6	8.6	3.7		6.6	10.1	
RoE (%)	10.7	8.8	1.1		4.6	10.4	

Key business highlight and outlook

- Retail Update:** Total consumption across all malls was at ₹ 260 crore (down from ₹ 1,440 crore in Q4FY21) mainly impacted by imposition of local restrictions by various state governments during April 2021. These local restrictions were lifted in the last week of June 2021 across malls (except Maharashtra). As per the management, the pace of recoveries is encouraging and operational malls recorded consumptions of ₹ 200 crore in July, 2021. The company expects significant momentum in consumptions during H2FY22 with a) increase in mall operations across India, and b) pickup on account of festive season. The management expects rentals to be at pre-Covid level for the operational malls quickly. Its under-development projects - Phoenix Citadel (Indore), and Palladium (Ahmedabad) are likely to be operational by FY23-end. Additionally, Phoenix Millennium (Wakad), and Phoenix Mall of Asia (Bangalore) are expected to be operational by FY24-end. Thus, with a strong pipeline, total of ~13 mn sq ft mall GLA is expected to be operational by FY24-end
- Commercial Segment:** In the commercial business, the office portfolio was least impacted and commercial revenues improved 11.2% YoY (to ₹ 36.5 crore). EBITDA margin remains strong at 68%. Among major assets, 95% of Fountain head Pune tower 1 are leased and operational. For tower 2, area has been recently leased and has started to generate rent from July 2021. Construction of Fountain head tower 3 is completed and awaiting occupancy certificate. With elevated level of occupancies and leasing of additional areas, the management expects EBITDA in office portfolio to reach ₹ 100+ crore during FY22. Leasing activities have significantly picked up post lifting of restrictions wherein a) Phoenix Citadel (Indore); expects 60%+ of total area to get leased by FY22-end, b) Phoenix Mall of Asia (Bangalore) 55%, c) Phoenix Millennium (Wakad): 50% and d) Palladium (Ahmedabad): reached 70% leased occupancy level currently; 80%+ of total area likely to get leased by FY22-end
- Residential:** The residential segment reported revenues of ₹ 36.8 crore during Q1FY22 as the company witnessed healthy demand for ready-to-move in inventory and reconfiguration of Kessaku into smaller units. Collections were at ₹ 35.5 crore and the company has sold inventory worth ₹ 36.8 crore in Q1FY22. The company is launching subvention scheme to cover completed units of Kessaku and under construction tower 7 at One Bangalore West
- Hospitality:** Hospitality business revenues during Q1FY22 were at ₹ 15.1 crore. Occupancies at St Regis and Courtyard by Marriott (Agra) remained low at ~30% and 17%, respectively. However, the company has witnessed significant traction post June 2021 with a gradual lifting of lockdown-like conditions. The company expects business to improve during H2FY22 with a pick-up in leisure travel and social events
- Phoenix Rise:** The company has made FSI payment of ₹ 280 crore for Phoenix Rise project. For this project, the overall cost (excluding land cost) is expected to be ₹ 1,000 crore and construction is likely to get completed by FY25-end. Development potential is at 1.2 mn sq ft. (0.3 mn retail; 0.9 commercial offices). **We have not yet incorporated the same in our estimates**
- Debt:** Gross debt was at ₹ 4,356.7 crore as on June 30, 2021 (down ₹ 130 crore QoQ) Effectively, net debt was at ~₹ 2,694.8 crore. Average cost of borrowing has reduced to 7.9% in June 2021 and is likely to decline further as downward repricing is expected, going forward

PML remains a quasi-play on India's consumption story, given the quality of assets, healthy balance sheet & strategic expansion plans. The QIP fund raise/investments by GIC/CPPIB has boosted the liquidity & growth ammunition. With only five to six major retail mall developers currently in India, and given its USP of operating large format properties efficiently, PML remains a superior player in the medium to long term. We expect retail rental income to grow at a CAGR of ~16% to ₹ 2175 crore in FY20-25E. We maintain BUY rating with an SoTP based target price of ₹ 1020/share.

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (Chg %)	Q4FY21	QoQ (Chg %)	Comments
Income from Operation	204.3	203.1	134.7	51.6	385.8	-47.1	The retail revenues declined by ~12% YoY and down ~57% QoQ at ₹ 115.3 crore, while hospitality revenues were up 57% YoY but declined by ~49% QoQ at ₹ 15.1 crore. Commercial remained resilient segment which witnessed revenues growth of ~61% YoY at ₹ 36.2 crore. The revenues recognition of ₹ 37.6 crore in residential segment vs. nil revenues in Q1FY21
Other Income	12.1	30.0	13.1	-7.8	49.6	-75.6	
Total raw material Expense	17.2	8.0	-0.8	-2,228.9	30.9	-44.3	
Employee cost	33.0	30.0	20.4	62.2	32.0	3.4	
Other expenditure	61.0	55.0	35.9	69.8	121.9	-50.0	
EBITDA	76.1	100.1	70.3	8.3	173.4	-56.1	
EBITDA Margin (%)	37.3	49.3	52.2	-1491 bps	44.9	-769 bps	
Depreciation	48.1	52.0	50.2	-4.3	52.0	-7.6	
Interest	72.3	80.0	86.9	-16.8	80.7	-10.4	
PBT	-32.2	-1.9	-53.8	-40.2	90.3	-135.6	
Taxes	2.6	-0.6	-3.3	-180.3	26.0	-89.9	
Reported PAT	-26.2	4.7	-42.4	-38.2	65.5	-140.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20	FY21	FY22E			FY23E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	1941.1	1073.3	1693.4	1693.4	0.0	2,516.0	2530.0	0.6	
EBITDA	967.1	494.2	861.4	861.4	0.0	1,310.9	1319.7	0.7	
EBITDA Margin (%)	49.8	46.0	50.9	50.9	0 bps	52.1	52.2	6 bps	
PAT	334.7	52.6	244.8	235.1	-4.0	578.9	576.8	-0.4	
EPS (₹)	21.8	3.1	14.2	13.7	-4.0	33.7	33.6	-0.4	

Source: Company, ICICI Direct Research

Company Analysis

Exhibit 3: Retail income trend

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY Growth (%)	QoQ Growth (%)
Rental Income (₹ crore)							
HSP & Palladium	34.4	33.4	62.1	66.2	29.3	(14.8)	(55.7)
PMC Mumbai	8.7	8.7	18.6	25.5	8.8	1.1	(65.5)
PMC Bangalore	12.0	12.8	23.8	29.3	11.2	(6.7)	(61.8)
PMC & Palladium Chennai*	13.4	7.4	23.6	33.8	14.9	11.2	(55.9)
PMC Pune	12.5	13.6	25.0	33.6	10.9	(12.8)	(67.6)
Phoenix Palladio		3.7	12.3	16.1	7.2	NA	(55.3)
Phoenix United Lucknow	2.2	3.7	5.9	6.4	2.8	27.3	(56.3)
Phoenix United Bareilly	1.2	2.8	4.8	5.7	1.9	58.3	(66.7)

Source: Company, ICICI Direct Research

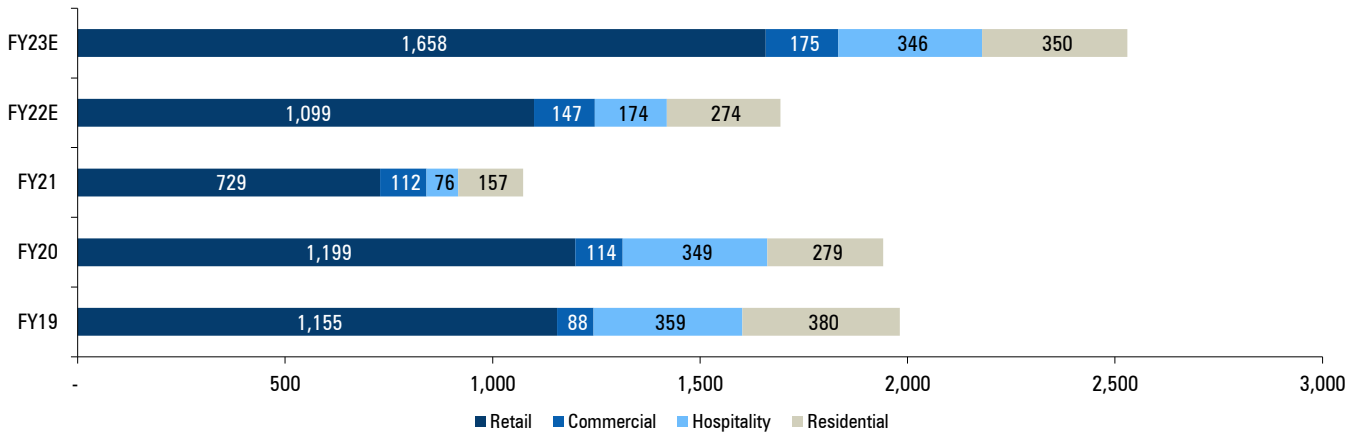
Exhibit 4: Commercial portfolio

Office	Location	Total Area (msf)	Area Sold(msf)	Net Leasable Area (msf)	Area Leased (msf)	Average Rate (₹/sq ft.)
Operational						
Phoenix Paragon Plaza	Mumbai	0.43	0.12	0.31	0.15	115
The Centrium	Mumbai	0.28	0.16	0.12	0.06	118
Art Guild House	Mumbai	0.80	0.17	0.63	0.48	108
Phoenix House	Mumbai	0.09	-	0.09	0.07	167
Fountainhead - Tower 1	Pune	0.17	-	0.17	0.16	91
Fountainhead - Tower 2	Pune	0.25	-	0.25	0.06	71
Total Operational		2.04	0.46	1.58	0.98	

Source: Company, ICICI Direct Research

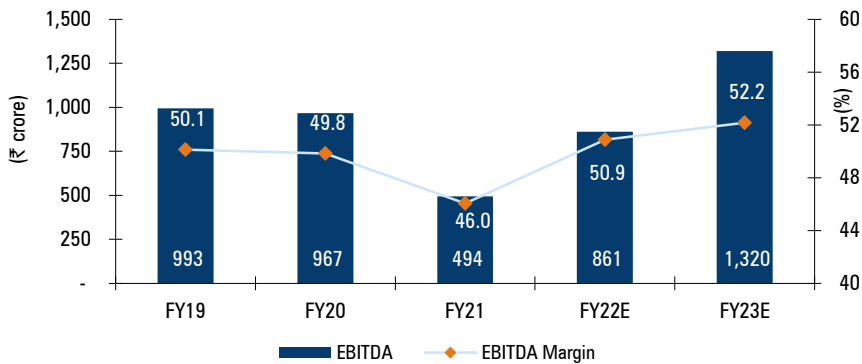
Financial story through charts

Exhibit 5: Revenue trend



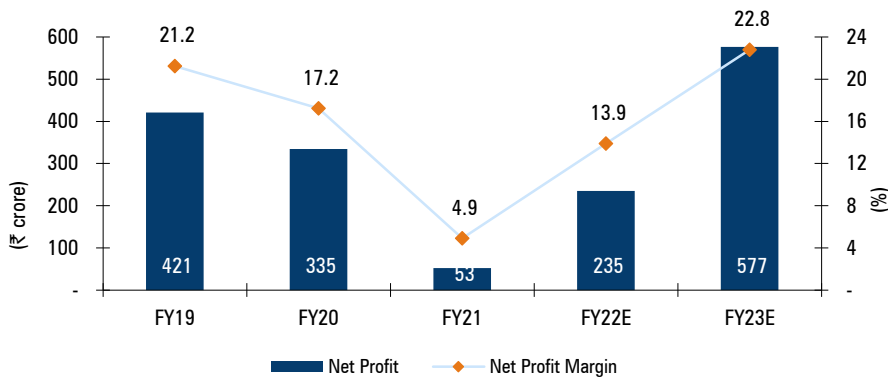
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 7: PAT trend



Source: Company, ICICI Direct Research

Valuation & Outlook

PML remains a quasi-play on India's consumption story, given the quality of assets, healthy balance sheet & strategic expansion plans. The QIP fund raise/investments by GIC/CPPIB has boosted the liquidity & growth ammunition. With only five to six major retail mall developers currently in India, and given its USP of operating large format properties efficiently, PML remains a superior player in the medium to long term. Over the medium term, we expect retail rental income to grow at a CAGR of ~16% to ₹ 2175 crore in FY20-25E. We maintain **BUY** rating with an SoTP based target price of ₹ 1020/share.

Exhibit 8: Valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Value (₹ crore)	Value/ share (₹/ share)
Retail	Leasable area (msf)					
Retail Operational	6.9	13,123.0	3,489.6	9,633.4	8339	485
Retail under construction/development	5.0	4174	69	4106	2087	121
Retail Total	11.9	17,297	3,558	13,739	10,426	607
Commercial	Leasable area (msf)					
Commercial Operational	1.0	1608	108	1500	1500	87
Commercial under construction	1.8	1297	60	1237	1130	66
Commercial Total	2.8	2,905	168	2,737	2,630	153
Hospitality	No of keys					
Hospitality Total	588	2,892	631	2,262	1,876	109
Residential	Saleable area (msf)					
Residential Total	3.7	1,088	-	1,088	858	50
Total	18.5	24,182		19,826	15,790	919
Add: Cash					1,662	97
Target price						1,015.4
Rounded off TP						1,020

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement ₹ crore

₹ crore	FY20	FY21	FY22E	FY23E
Net Sales	1,941.1	1,073.3	1,693.4	2,530.0
Other Income	58.5	92.3	96.9	101.8
Total revenues	1,999.6	1,165.6	1,790.3	2,631.8
Raw Material Expenses	195.9	76.9	152.4	227.7
Employee Cost	165.5	112.5	135.5	202.4
Other Expenditure	612.6	389.7	544.1	780.2
Total Operating Expenditure	974.0	579.1	832.0	1,210.3
EBITDA	967.1	494.2	861.4	1,319.7
Interest	347.8	347.8	346.4	384.0
Depreciation	207.6	209.4	268.6	303.9
PBT	478.0	29.2	343.4	733.6
Tax	122.1	(4.7)	86.5	184.9
Reported PAT	334.7	52.6	235.1	576.8
EPS	21.9	3.1	13.7	33.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

₹ crore	FY20	FY21	FY22E	FY23E
Profit after Tax	334.7	52.6	235.1	576.8
Depreciation	207.6	209.4	268.6	303.9
Interest paid	347.8	347.8	346.4	384.0
Cash Flow before wc changes	986.4	516.9	958.3	1,421.5
Net Increase in Current Assets	(130.3)	1.7	104.6	(607.4)
Net Increase in Current Liabilities	31.8	(94.4)	(361.1)	545.0
Net cash flow from op. activities	779.8	436.6	615.3	1,174.2
Purchase of Fixed Assets	(780.3)	(744.2)	(594.8)	(537.7)
(Purchase)/Sale of Investments	(913.4)	(1,018.5)	-	-
Net cash flow from inv. activities	(544.1)	(585.2)	(581.0)	(507.5)
Proceeds from Long Term Borrowir	922.1	(181.2)	160.2	(8.8)
Interest paid	(325.6)	(368.0)	(346.4)	(384.0)
Net cash flow from fin. activities	(286.9)	521.7	(215.1)	(537.6)
Net Cash flow	(51.3)	373.2	(180.8)	129.2
Opening Cash	192.0	140.7	513.9	333.1
Closing Cash	140.7	513.9	333.1	462.3

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet ₹ crore

₹ crore	FY20	FY21	FY22E	FY23E
Equity Capital	30.7	34.4	34.4	34.4
Reserves & Surplus	3,677.7	4,850.4	5,056.6	5,488.5
Networth	3,708.4	4,884.8	5,090.9	5,522.9
Total Debt	4,308.4	3,757.0	3,917.2	3,908.5
Other financial liabilities	202.1	156.7	162.4	242.6
Deferred Tax Liability	2.8	2.1	2.1	2.1
Source of Funds	9,500	10,120	10,527	11,033
Gross Block	7,503.5	8,532.9	9,593.0	10,130.7
Less: Accumulated Dep	1,423.9	1,633.3	1,901.9	2,205.8
Net Block	6,079.6	6,899.7	7,691.2	7,925.0
Capital WIP	1,534.1	1,274.0	808.6	808.6
Total Fixed Assets	7,613.7	8,173.6	8,499.8	8,733.6
Investments	428.0	474.9	474.9	474.9
Inventories	816.1	768.2	719.1	1,039.7
Trade Receivables	201.7	295.0	185.6	277.3
Loans & Advances	9.7	15.0	23.7	35.5
Cash & Bank Balances	140.7	513.9	333.1	462.3
Other Current Assets	412.2	325.9	371.2	554.5
Total Current Assets	1,742.1	2,017.1	1,731.7	2,468.3
Trade Payable	110.1	84.7	133.6	199.6
Provisions	76.1	85.5	92.8	124.8
Other Current Liabilities	860.8	1,165.3	742.3	1,109.1
Total Current Liabilities	1,047.0	1,335.5	968.7	1,433.5
Net Current Assets	695.1	681.6	763.0	1,034.9
Application of Funds	9,500	10,120	10,527	11,033

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios

₹ crore	FY20	FY21	FY22E	FY23E
Per Share Data				
Reported EPS	21.9	3.1	13.7	33.6
Cash EPS	35.4	15.2	29.3	51.2
BVPS	242.2	284.2	296.2	321.3
Operating Ratios				
EBITDA / Net Sales	49.8	46.0	50.9	52.2
PAT / Net Sales	16.8	4.9	13.9	22.8
Return Ratios				
RoE	8.8	1.1	4.6	10.4
RoCE	8.6	3.7	6.6	10.1
RoIC	11.2	3.9	7.0	11.6
Valuation Ratios				
EV / EBITDA	19.7	36.9	21.5	14.0
P/E	40.1	286.6	64.1	26.1
EV / Net Sales	9.8	17.0	11.0	7.3
Market Cap / Sales	7.8	14.0	8.9	6.0
Price to Book Value	3.6	3.1	3.0	2.7
Turnover Ratios				
Asset turnover	0.2	0.1	0.2	0.2
Gross Block Turnover	0.2	0.1	0.2	0.2
Solvency Ratios				
Net Debt / Equity	1.1	0.6	0.7	0.6
Current Ratio	1.4	1.1	1.3	1.3
Quick Ratio	0.6	0.5	0.6	0.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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