Phoenix Mills (PHOMIL)

CMP: ₹ 1532 | Target: ₹ 1775 (16%) | Target Period: 12 months | BUY

November 10, 2022

Result Update

Retail consumption drives robust performance…

About the stock: Phoenix Mills (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 ~6 mn sq ft of retail space. It has ~2 mn sq ft operational in commercial segment and plans to add ~5 mn sq ft

Q2FY23 Results: PML reported a strong operating performance.

- Reported revenues grew 75.3% YoY, 13.4% QoQ to ₹ 651 crore with growth driven by retail portfolio. Retail revenues grew ~95.4% YoY at ₹ 456.3 crore, while hospitality revenues were up 171% YoY at ₹ 93.4 crore. Retail rental at ₹ 313 crore, was at ~121% of Q2FY20 (pre-Covid level) and ~110% on like to like basis. Consumption in Q2FY23 at ₹ 2198.6 crore, was ~130% of Q2FY20 (pre-Covid), and ~118% on like to like basis
- Reported EBITDA margins were up 223 bps QoQ to 58.5%, with operating leverage kicking in along with lower other costs. The company reported a PAT of ₹ 185.8 crore, up 212.4% YoY, ~14% QoQ (on adjusted basis)

What should investors do? PML's share price has grown at 25% CAGR over the past five years (from ~₹ 511 in November 2017 to ~₹ 1532 levels in November 2022).

- We maintain our **BUY** rating as PML remains a quasi-play on India's consumption story, given the quality of assets & healthy balance sheet

Target Price and Valuation: We value PML at ₹ 1775/share, valuing it at 25% premium to NAV given the business development activities lined up.

Key triggers for future price performance:

- Focused on core competence in 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 ₹ 2159 crore in FY20-25E
- Strong addition pipeline in the commercial segment, which is likely to expand to ~7 msf in three to four years, from 2 msf currently
- Healthy balance sheet and strategic expansion plan to add organic/inorganic retail assets

Alternate Stock Idea: Besides PML, we like Brigade Enterprises in real estate space.

- A play on well-placed Bengaluru real estate
- BUY with a target price of ₹ 595

The Phoenix Mills Limited

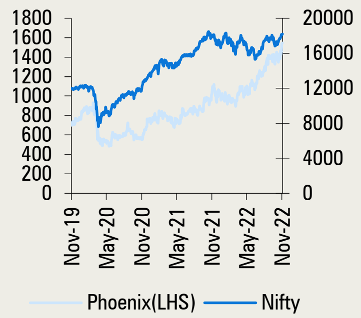
Particulars

Particular	Amount (₹ crore)
Market Capitalization	27,355
Total Debt (FY22)	4,380
Cash (FY22)	593
EV	31,142
52 week H/L (₹)	1624 / 885
Equity capital	35.7
Face value	₹ 2

Shareholding pattern

	Jan-22	Mar-22	Jun-22	Sep-22
Promoters	47.3	47.3	47.3	47.3
DII	17.1	16.7	16.2	17.0
FIIs	30.6	30.7	31.6	30.6
Other	4.9	5.3	4.9	5.1

Price Chart



Key Risks

Key Risk: (i) Slowdown in mall consumption; (ii) Any slowdown in commercial leasing

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ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY21	FY22	5 yr CAGR (FY16-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales (₹ crore)	1,073.3	1,483.5	-4%	2,593.9	3,201.2	3,865.6	38%
EBITDA (₹ crore)	494.2	733.9	-3%	1,520.6	1,890.2	2,357.9	48%
EBITDA margin (%)	46.0	49.5		58.6	59.0	61.0	
Adj. Net Profit (₹ crore)	52.6	237.4	7%	673.8	844.7	1,090.6	66%
Adj. EPS (₹)	2.9	13.3		37.7	47.3	61.1	
P/E (x)	519.9	115.2		22.2	32.4	25.1	
EV/EBITDA (x)	62.3	39.9		20.0	16.1	12.7	
Price / Book (x)	5.6	4.2		3.5	3.2	2.8	
RoCE (%)	3.6	4.6		9.6	10.7	12.5	
RoE (%)	1.1	3.6		8.7	9.9	11.3	

Source: Company, ICICI Direct Research

Key business highlight and outlook

- **Retail properties KPIs**: Consumption across most categories has exceeded pre-Covid-19 levels and improved to ₹ 2,198.6 crore during Q2FY23 (130% of Q2FY20) led by the festive season and new brand launches. This was the highest quarterly consumption done at company's malls in Q2 of any financial year. Ex of Phoenix Palassio's (Lucknow) contribution (which opened in July 2020), Q2FY23 consumption was 118% of Q2FY20. Additionally, **the momentum in consumption remained healthy during October 2022 (at ₹ 977.7 crore; 133% of October 2019). Also, Q2FY23 rental income was at 121% of Q2FY20 (₹ 313.3 crore).** Further, retail collections remained healthy for Q2FY23 with collections of ₹ 519.6 crore (vs. ₹ 525.3 crore in Q1FY23). **Going forward, the management expects gained momentum in consumption/ collection levels to continue with a) improving demand and b) sustained consumption growth, and c) new trading areas turning operational across existing malls. With these, the management believes consumptions will surpass ₹ 9,000 crore during FY23 (YTD April to October 2022: ₹ 5,300 crore). Footfalls are still ~15% lower than pre Covid levels currently. However, with the positive response to its marketing initiatives (in terms of the concerts and performances), the company expects significant rise in footfalls over near to medium term which, in-turn, boost consumptions.** Further, collection is likely to remain strong at ₹ 500+ crore on a quarterly basis

- **Update on expansion in Phoenix Palladium**: The GLA of Phoenix Palladium mall stood at ~0.77 mn sq ft in FY22. **During July 2022, the company operationalised additional GLA of ~0.15 mn sq ft spread across the lower ground floor, first and second floors and East Zone. In addition, the company is likely to have 0.25mn sq ft of anchor area coming up opposite to the PVR block in 2024, and another 0.2 mn sq ft of retail GLA as part of the new expansion "Project Rise" in 2025. With these, Phoenix Palladium is likely to have ~1.43 mn sq ft GLA by 2025**

- **Expansion strategy in retail business**: PML has set a **target to add ~1 mn sq ft of GLA each year post FY25** and is looking for greenfield opportunities in various regions including Kolkata, Surat, Jaipur, Chandigarh, Hyderabad among others). In line with that, **the company has signed an in-principle closure for land located at Surat and transaction is likely to be completed in Q3FY23. The development would be ~1 mn sq ft with estimated construction period of 3-3.5 years.** Also, the company is in **advanced discussion at Jaipur and Chandigarh location for land deals**. As per the management, the cost to build a mall at targeted cities is expected to remain in the range of ₹ 1,200-1,500 crore. Funding would be either solely by PML or with joint venture partner – GIC

- **Commercial KPIs**: In the commercial business, Phoenix's **office portfolio remained robust with revenues during Q2FY23 improving to ₹ 43.5 crore (vs. 42.1 crore during Q2FY22). Collection efficiency was at ~95%.** Among major assets, Fountain head Pune tower 1 (total area: 0.17 mn sq ft) is fully leased and operational. For recently operational tower 2 building (total area: 0.26 mn sq ft), 0.13 mn sq ft area has been leased till now. Additionally, construction of Fountainhead tower 3 has been completed and occupancy certificate was received in December 2021.Overall, revenue from Fountainhead – Tower 1 & 2 was at ₹ 94 crore (up 51% YoY). **In terms of leasing, the company continues to witness strong leasing traction at YTD October 2022 and achieved gross leasing of ~2.0 lakh sq ft (~1.3 lakh sq ft is new leasing and ~0.7 lakh sq ft is renewal leasing). Going forward, the company expects leasing momentum to continue with string demand for commercial space**

- **Residential business**: The residential segment reported revenues of ₹ 57.8 crore during Q2FY23 as **the company witnessed strong demand for ready to move in inventory, faster conversions, and reconfiguration of Kessaku into smaller units. Sales, collections were healthy at ₹ 97.9 crore, ₹ 70.7 crore, respectively, during Q2FY23. The sales includes ₹ 26.2 crore worth of pending registration**. Going forward, the company is witnessing healthy demand with faster conversions backed by effective digital marketing efforts and various schemes and offers. Also, **the company has won the bid for a**

premium land parcel in Kolkata (at Alipur) having gross developmental potential of ₹ 2,000 crore (1 mn sq ft of developmental area; capex: ₹ 900-1050 crore). In these, the company is awaiting go ahead from Government of West Bengal

- **Hospitality portfolio**: Hospitality business **revenues improved to ₹ 100.7 crore during Q2FY23 (up 2.9x YoY)** with higher occupancy and improved average room rentals (ARR) with uptick in social events, revival in corporate travels and pickup in F&B segments. Portfolio-wise, **St Regis average occupancy remained elevated at 84% during Q2FY23 (vs. 57% in Q2FY22). Additionally, ARR improved to ₹ 11,840 in Q2FY23. With improved ARR and occupancy, revenue improved to ₹ 84.5 crore during Q2FY23**. Further, improved revenue and various cost rationalisation exercises has translated into 41% EBITDA margin. Further, room occupancy and ARR has remained elevated at 79% and ₹ 14,154 respectively, in October 2022 and is likely to remain at an elevated level with resumption of foreign travel, domestic corporate travel, social events and staycations. Also, **the company has operationalised new banqueting venues on the 38th floor of the hotel, which has started generating revenues from September 2022 and is likely to further add substantially to monthly revenue run rate.** In Agra Courtyard Marriot, average occupancy witnessed improvement to 63% in Q2FY23, 80% in October 2022. Also, ARR has improved to ₹ 3,883 in Q2FY23 with ARR staying elevated at ₹ 4,623 in October 2022

- **Debt**: Gross **debt as on September 30, 2022 was at ₹ 4,263.6 crore (up ₹ 77 crore QoQ). Effectively, net debt was at ₹ 1,963.9 crore. Average cost of borrowing was at 7.89% in September 2022 (vs. 7.45% in June 2022) whereas lowest rate on borrowing was at 7.35%.** Going forward, the company expects borrowing cost to increase in the near term with banks likely to pass rate hikes

- **Lease status in under-construction malls**: a) Phoenix **Citadel (Indore): to start operation during December 2022; pre-lease commitments reached ~88% by Q2FY23-end, rentals at ~₹ 90-100/ sq ft b) Palladium (Ahmedabad): to begin during January 2023; ~99% of retail GLA pre-leased by Q2FY23-end; rentals at ~₹ 140/ sq ft, c) Phoenix Millennium (Wakad): expected to start operation during FY24; commitments reached ~86% by Q2FY23-end; rentals at ~₹ 120-130/ sq ft, and d) Phoenix Mall of Asia (Hebbal, Bangalore): to begin operation by H1FY24; ~78% of retail GLA pre-leased by Q2FY23-end, rentals at ~₹ 155-160/ sq ft**

- **Project Rise update**: The company has executed an agreement with Canada Pension Plan Investment Board to develop office led mixed use development at Lower Parel. The company expects to add office GLA of 1mn sq ft and retail GLA of 0.2 mn sq ft. **Currently, shore piling work and excavation work is under progress**

- **Kolkata project update**: Demolition work for on-site structure is complete with receipt of all necessary approvals for building plans, environmental clearance and consent to establish. **The construction work has commenced**

- **Capex**: The company has **incurred capex of ₹ 570 crore during H1FY23 and expects elevated level of capex, going forward**, with many malls at the construction stage

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 ₹ 2159 crore in FY20-25E. We maintain BUY rating with a revised SoTP based target price of ₹ 1775/share. Given that strategic inorganic expansion is now lined up, we now assign 25% premium to NAV, with value add potential in sight with new retail /residential segment project addition.

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (Chg %)	Q1FY23	QoQ (Chg %)	Comments
Income from Operation	651.1	619.0	371.3	75.3	574.4	13.4	On the core portfolio (commercial + retail + hospitality) front, revenues grew by ~91% YoY to ₹ 593 crore. The retail revenues grew by ~95.4% YoY at ₹ 456.3 crore, while hospitality revenues were up by 171% YoY at ₹ 93.4 crore. Retail Rental at ₹ 313 crore, are at ~121% of Q2FY20 (Pre-Covid level) and ~110% on like to like basis. C
Other Income	32.4	24.0	15.9	103.8	23.5	38.2	
Total raw material Expense:	43.3	29.0	30.0	44.2	24.9	74.1	
Employee cost	54.2	53.0	41.8	29.6	50.0	8.3	
Other expenditure	137.0	155.0	86.7	58.1	146.6	-6.5	
EBITDA	380.9	348.0	186.3	104.5	322.9	17.9	
EBITDA Margin (%)	58.5	56.2	50.2	833 bps	56.2	228 bps	
Depreciation	55.9	52.0	47.6	17.4	50.0	11.9	
Interest	83.4	75.2	75.2	10.9	74.1	12.7	
PBT	273.9	244.8	79.3	245.4	779.1	-64.8	
Taxes	52.0	60.0	16.1	222.1	34.1	52.7	
Reported PAT	185.8	158.8	59.5	212.4	718.7	-74.1	

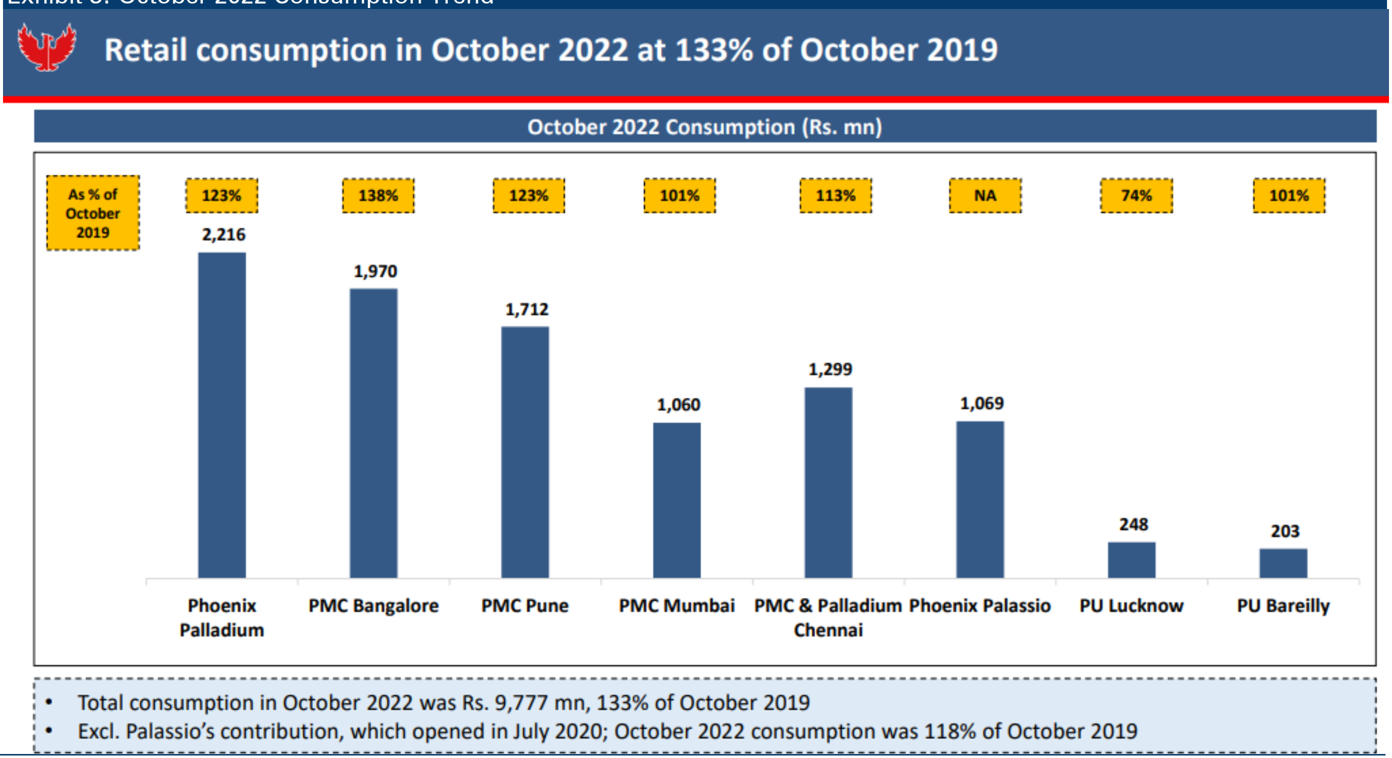
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22	FY23E			FY24E			FY25E	
(₹ Crore)	New	Old	New	% Change	Old	New	% Change	New	Comments
Revenue	1483.5	2580.6	2593.9	0.5	3,198.7	3201.2	0.1	3865.6	Realign estimates
EBITDA	733.9	1507.3	1520.6	0.9	1,893.9	1890.2	-0.2	2357.9	
EBITDA Margin (%)	49.5	58.4	58.6	21 bps	59.2	59.0	-16 bps	61.0	
Adj. PAT	237.4	663.9	673.8	1.5	839.8	844.7	0.6	1090.6	
EPS (₹)	13.3	68.4	68.9	1.5	47.0	47.3	0.6	61.1	

Source: Company, ICICI Direct Research

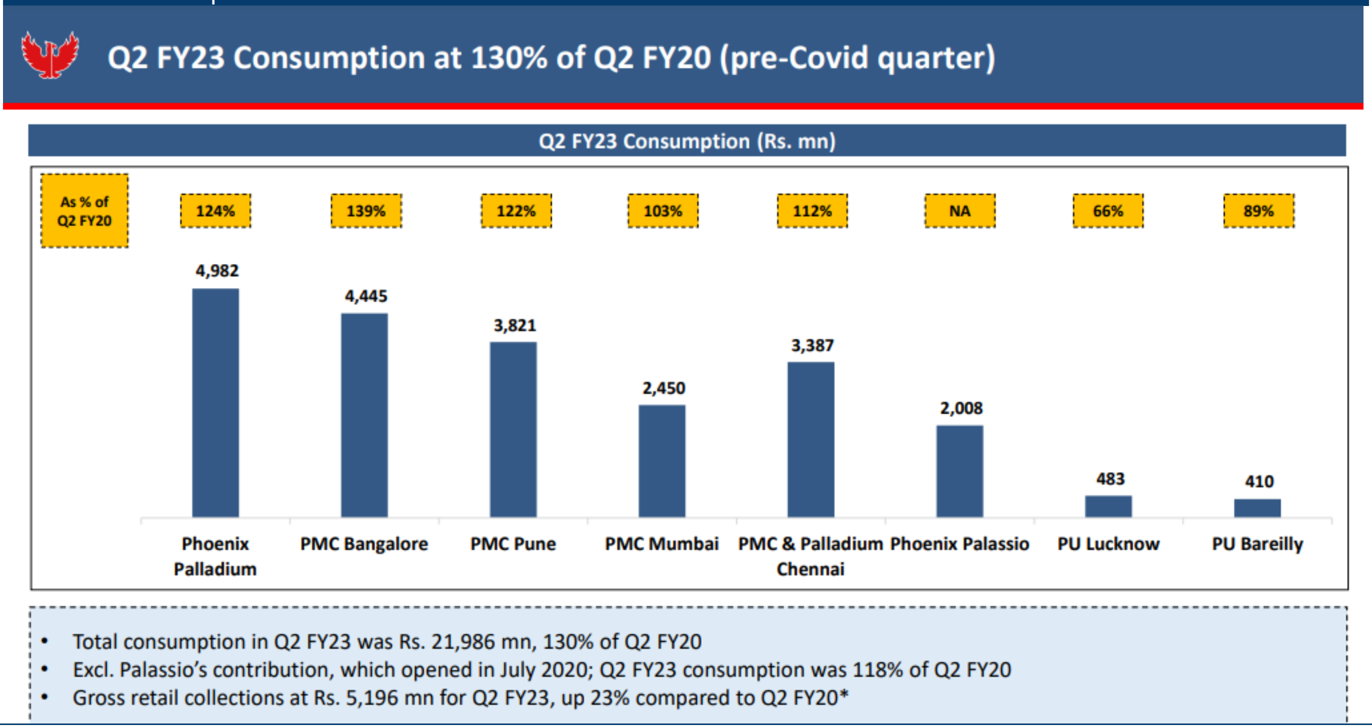
Exhibit 3: October 2022 Consumption Trend



Source: Company, ICICI Direct Research

Company Analysis

Exhibit 4: Consumption Trend



Source: Company, ICICI Direct Research

Exhibit 5: Retail income trend

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY Growth (%)	QoQ Growth (%)
Rental Income (₹ crore)							
HSP & Palladium	46.6	72.5	73.6	94.5	91.3	95.9	(3.4)
PMC Mumbai	17.7	26.1	28.2	37.4	35.1	98.3	(6.1)
PMC Bangalore	35.1	38.6	37.1	46.0	47.2	34.5	2.6
PMC & Palladium Chennai*	39.3	41.8	34.6	49.4	48.9	24.4	(1.0)
PMC Pune	22.1	43.2	41.0	52.3	46.2	109.0	(11.7)
Phoenix Pallasio	24.5	24.8	23.8	27.9	29.2	19.2	4.7
Phoenix United Lucknow	7.4	7.7	6.8	9.0	9.6	29.7	6.7
Phoenix United Bareily	5.8	6.0	5.6	5.8	5.8	-	-

Source: Company, ICICI Direct Research

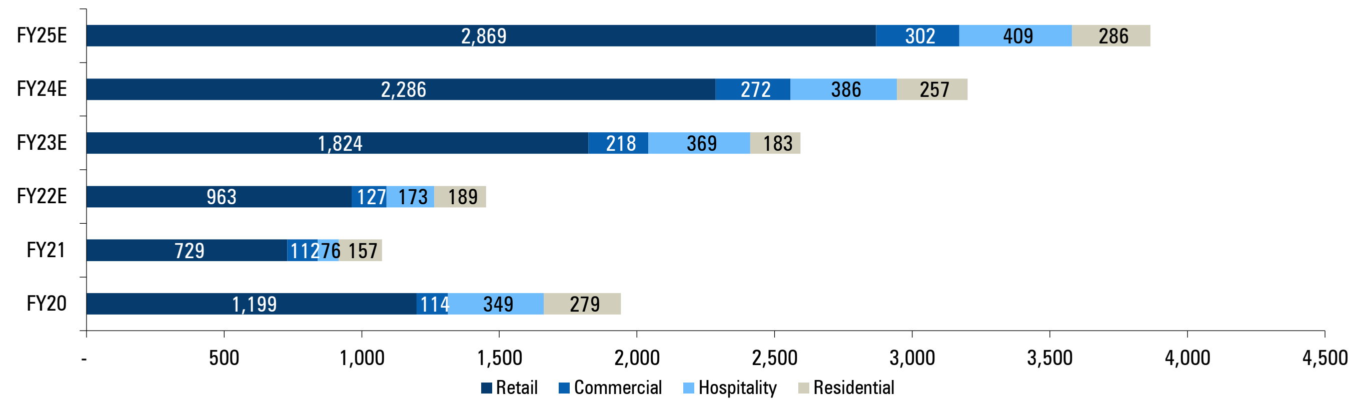
Exhibit 6: Commercial portfolio

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	0.17	108
The Centrium	Mumbai	0.28	0.16	0.12	0.08	81
Art Guild House	Mumbai	0.80	0.17	0.63	0.51	88
Phoenix House	Mumbai	0.09	-	0.09	0.07	181
Fountainhead - Tower 1	Pune	0.17	-	0.17	0.17	81
Fountainhead - Tower 2	Pune	0.25	-	0.25	0.13	71
Fountainhead - Tower 3	Pune	0.41	-	0.41	-	
Total Operational		**2.45**	**0.45**	**2.00**	**1.12**	

Source: Company, ICICI Direct Research

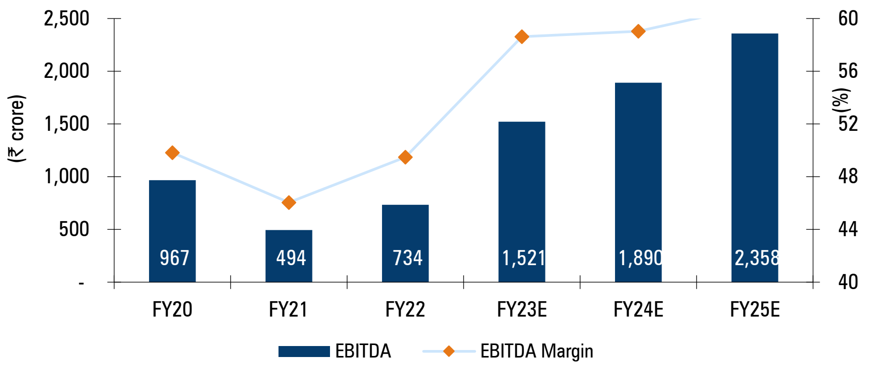
Financial story through charts

Exhibit 7: Revenue trend



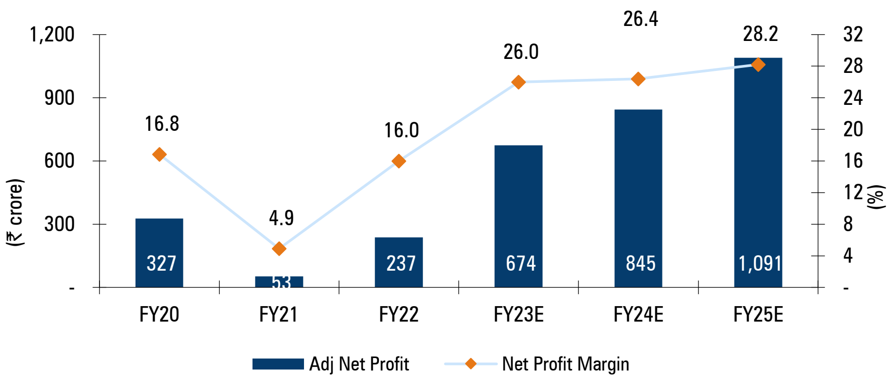
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 9: 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 and 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 it's 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 ₹ 2159 crore in FY20-25E. We maintain BUY rating with a revised SoTP based target price of ₹ 1775/share. Given that strategic inorganic expansion is now lined up, we now assign 25% premium to NAV, with value add potential in sight with new retail /residential segment project addition.

Exhibit 10: Valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Value (₹ crore)	Value/ share (₹/ share)
Retail	**Leasable area (msf)**					
Retail Operational	7.0	17,885.0	3,051.8	14,833.2	12400	694
Retail under construction	5.9	5518	1640	4662	2365	132
Retail Total	**12.9**	**23,403**	**4,692**	**19,495**	**14,765**	**827**
Commercial	**Leasable area (msf)**					
Commercial Operational	2.0	2396	65	2331	1879	105
Commercial under construction	5.1	7079	1068	6011	5247	294
Commercial Total	**7.1**	**9,475**	**1,133**	**8,342**	**7,126**	**399**
Hospitality	**No of keys**					
Hospitality Total	**588**	**3,602**	**485**	**3,117**	**2,297**	**129**
Residential	**Saleable area (msf)**					
Residential Total	**3.4**	**1,162**	**30**	**1,132**	**1,132**	**63**
Total					**25,319**	**1,418**
Premium for Growth (25%)					**6,330**	**355**
Grand Total					**31,649**	**1,773**
Rounded Off target price						**1,775**

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement ₹ crore

₹ crore	FY22	FY23E	FY24E	FY25E
Net Sales	**1,483.5**	**2,593.9**	**3,201.2**	**3,865.6**
Other Income	74.4	79.2	83.2	87.3
Total revenues	1,557.9	2,673.1	3,284.3	3,952.9
Raw Material Expenses	103.0	142.7	176.1	212.6
Employee Cost	156.9	207.5	256.1	309.2
Other Expenditure	489.6	723.1	878.9	985.8
Total Operating Expenditure	749.6	1,073.3	1,311.0	1,507.7
EBITDA	**733.9**	**1,520.6**	**1,890.2**	**2,357.9**
Interest	294.5	348.6	361.4	370.1
Depreciation	185.9	227.0	304.3	317.6
PBT	**328.0**	**1,581.0**	**1,307.7**	**1,757.5**
Tax	80.1	237.2	326.9	439.4
Reported PAT	**237.4**	**1,230.5**	**844.7**	**1,090.6**
EPS	**13.3**	**68.9**	**47.3**	**61.1**

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

₹ crore	FY22	FY23E	FY24E	FY25E
Profit after Tax	**237.4**	**1,230.5**	**844.7**	**1,090.6**
Depreciation	185.9	227.0	304.3	317.6
Interest paid	294.5	348.6	361.4	370.1
Cash Flow before wc changes	767.0	2,156.6	1,973.3	2,445.2
Net Increase in Current Assets	(28.1)	(669.4)	(484.7)	(530.3)
Net Increase in Current Liabilities	99.4	688.8	363.6	413.3
Net cash flow from op. activities	**780.6**	**1,938.7**	**1,525.3**	**1,888.8**
Purchase of Fixed Assets	(1,259.2)	(1,732.3)	(1,123.3)	(1,110.9)
(Purchase)/Sale of Investments	(3,582.5)	-	-	-
Net cash flow from inv. activities	**(2,929.5)**	**(820.7)**	**(1,110.8)**	**(1,097.4)**
Proceeds from Long Term Borrowir	41.3	395.2	175.4	119.6
Interest paid	(279.5)	(348.6)	(361.4)	(370.1)
Net cash flow from fin. activities	**2,227.6**	**(956.1)**	**(208.9)**	**(225.4)**
Net Cash flow	78.7	161.9	205.5	566.0
Opening Cash	513.9	592.6	754.5	960.0
Closing Cash	**592.6**	**754.5**	**960.0**	**1,526.0**

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet ₹ crore

₹ crore	FY22	FY23E	FY24E	FY25E
Equity Capital	35.7	35.7	35.7	35.7
Reserves & Surplus	6,546.8	7,674.6	8,496.3	9,612.0
Networth	6,582.5	7,710.3	8,532.0	9,647.7
Total Debt	4,379.5	4,774.7	4,950.0	5,069.6
Other financial liabilities	117.4	205.4	253.4	306.0
Deferred Tax Liability	4.8	4.8	4.8	4.8
Source of Funds	**13,513**	**14,349**	**15,543**	**17,071**
Gross Block	8,937.6	10,808.8	13,231.9	13,231.9
Less: Accumulated Dep	1,736.4	1,963.3	2,267.7	2,585.2
Net Block	7,201.3	8,845.5	10,964.2	10,646.7
Capital WIP	2,048.6	1,909.7	609.9	1,720.8
Total Fixed Assets	9,249.9	10,755.2	11,574.1	12,367.4
Investments	493.2	493.2	493.2	493.2
Inventories	749.8	1,066.0	1,315.6	1,588.6
Trade Receivables	279.9	355.3	438.5	529.5
Loans & Advances	88.8	155.2	191.5	231.3
Cash & Bank Balances	592.6	754.5	960.0	1,526.0
Other Current Assets	282.5	493.9	609.6	736.1
Total Current Assets	3,817.7	3,749.1	4,439.3	5,535.6
Trade Payable	129.9	227.1	280.2	338.4
Provisions	156.8	260.0	303.4	366.3
Other Current Liabilities	535.0	935.5	1,154.5	1,394.1
Total Current Liabilities	821.7	1,422.6	1,738.1	2,098.8
Net Current Assets	2,996.0	2,326.5	2,701.3	3,436.8
Application of Funds	**13,513**	**14,349**	**15,543**	**17,071**

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

₹ crore	FY22	FY23E	FY24E	FY25E
Per Share Data				
Reported EPS	13.3	68.9	47.3	61.1
Adjusted EPS	13.3	37.7	47.3	61.1
BVPS	368.7	431.8	477.9	540.4
Operating Ratios				
EBITDA / Net Sales	49.5	58.6	59.0	61.0
PAT / Net Sales	16.0	26.0	26.4	28.2
Return Ratios				
RoE	3.6	8.7	9.9	11.3
RoCE	4.6	9.6	10.7	12.5
RoIC	6.7	13.1	13.0	17.0
Valuation Ratios				
EV / EBITDA	39.9	20.0	16.1	12.7
P/E	115.2	22.2	32.4	25.1
EV / Net Sales	19.8	11.7	9.5	7.8
Market Cap / Sales	18.4	10.5	8.5	7.1
Price to Book Value	4.2	3.5	3.2	2.8
Turnover Ratios				
Asset turnover	0.1	0.2	0.2	0.2
Gross Block Turnover	0.2	0.2	0.2	0.3
Solvency Ratios				
Net Debt / Equity	0.3	0.4	0.4	0.3
Current Ratio	1.7	1.5	1.5	1.5
Quick Ratio	**0.8**	**0.7**	**0.7**	**0.7**

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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