

Retail/hospitality portfolio continues to shine...

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 operational retail area of ~7.7 mn sq ft spread over 10 operational malls and is developing ~6 mn sq ft of retail space. It has ~2.5 mn sq ft operational in the commercial segment and plans to add ~4.5 mn sq ft

Q3FY23 Results: PML reported a strong operating performance.

- Reported revenues grew ~60.9% YoY, 5% QoQ to ₹ 684 crore. Retail revenues grew ~59% YoY at ₹ 442.4 crore while hospitality revenues were up 123% YoY at ₹ 146.4 crore. We note that retail rental at ₹ 336 crore (up 59% YoY), was at ~121% of Q3FY20 (pre-Covid level) and ~109% on a like-to-like basis. Consumption in Q3FY23 at ₹ 2647 crore, was ~128% of Q3FY20 (pre-Covid), and ~114% on a like-to-like basis
- Reported EBITDA margins were up 200 bps YoY to 56.2% (vs. estimates of 58%), with operating leverage kicking in on a YoY basis. The company reported PAT of ₹ 176.4 crore, up 78.4% YoY

What should investors do? PML's share price has grown at 18% CAGR over the past five years (from ~₹ 589 in February 2018 to ~₹ 1366 levels currently).

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

Target Price and Valuation: We value PML at ₹ 1650/share, valuing it at 20% 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 ₹ 2144 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 2.5 msf currently
- Healthy balance sheet and strategic expansion plan to add organic/inorganic retail assets

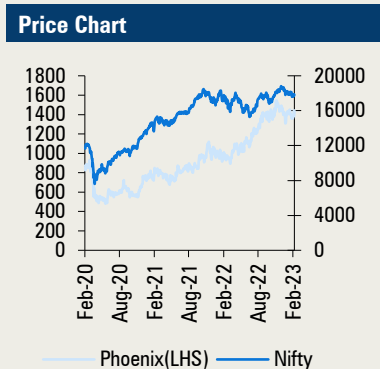
Alternate Stock Idea: Besides PML, we like Brigade Enterprises in real estate space.

- A play on well-placed Bengaluru real estate
- BUY with a target price of ₹ 620



Particulars	
Particular	Amount (₹ crore)
Market Capitalization	24,389
Total Debt (FY22)	4,380
Cash (FY22)	593
EV	28,176
52 week H/L (₹)	1624 / 885
Equity capital	35.7
Face value	₹ 2

Shareholding pattern				
	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	47.3	47.3	47.3	47.3
DII	16.7	16.2	17.0	19.0
FIs	30.7	31.6	30.6	29.3
Other	5.3	4.9	5.1	4.4



Key Risks

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

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales (₹ crore)	1,073.3	1,483.5	-4%	2,597.4	3,131.4	3,821.2	37%
EBITDA (₹ crore)	494.2	733.9	-3%	1,484.2	1,824.4	2,312.2	47%
EBITDA margin (%)	46.0	49.5		57.1	58.3	60.5	
Adj. Net Profit (₹ crore)	52.6	237.4	7%	701.4	810.2	1,072.1	65%
Adj. EPS (₹)	2.9	13.3		39.3	45.4	60.0	
P/E (x)	465.4	103.1		19.5	30.2	22.8	
EV/EBITDA (x)	56.5	36.0		18.6	15.1	11.7	
Price / Book (x)	5.0	3.7		3.2	2.9	2.5	
RoCE (%)	3.6	4.6		9.6	10.5	12.4	
RoE (%)	1.1	3.6		9.1	9.5	11.1	

Key business highlight and outlook

- Retail Properties KPIs:** Consumption across most categories has exceeded pre-Covid-19 levels and improved to ₹ 2,647 crore, up ~28% over Q3FY20, which was historically the best year. Excluding Phoenix Palassio Lucknow and Phoenix Citadel Indore, the growth was 14% over Q3FY20. The top performing categories were jewellery, which was up 142% from Q3FY20. Electronics was up 21% from Q3FY20, fashion and accessories up 26%, food & beverage up 31%, FEC, multiplex and entertainment up 30% from Q3FY20. Retail rental at ₹ 336 crore (up 59% YoY), were at ~121% of Q3FY20 (pre-Covid level) and ~109% on a like-to-like basis. Also, **the momentum in consumption remained healthy during January at ₹ 816 crore; at 127% of pre-Covid (up 109% of pre-Covid on adjusted basis).** Further, retail collections remained healthy for Q3FY23 with collections of ₹ 540 crore (vs. ₹ 520 crore in Q2FY23). **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 consumption will surpass ₹ 9,000 crore during FY23 (YTD April to January 2023: ₹ 7853 crore), excluding new malls incremental contributions.** Further, the collection is likely to remain strong at ₹ 500+ crore on a quarterly basis
- 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 Jaipur, Chandigarh, Hyderabad among others). In line with that, **the company has acquired land parcel of ~ 7 acres in December 2022 in partnership with GIC and Bsafal group for ₹ 501 crore (total costs will be ₹ 1000 crore, including construction costs) in Surat. The development would be ~1 mn sq ft with estimated construction period of three to three-and-a-half years.** Also, the company is in **advanced discussions 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 Q3FY23 improving 15.6% YoY at ₹ 42.3 crore. Collection efficiency was at ~9%. In terms of leasing, the company continues to witness strong leasing traction at YTD January 2023 and achieved gross leasing of ~3.95 lakh sq ft (~2.45 lakh sq ft is new leasing and ~1.5 lakh sq ft is renewal leasing).** Going forward, PML expects **leasing momentum to continue with strong demand for commercial space**
- Residential business:** The residential segment reported revenues of ₹ 52.7 crore, up 64% YoY, with ₹ 13.6 crore worth of sales is pending registration during the quarter. **The company witnessed healthy demand for ready to move in inventory, faster conversions, and reconfiguration of Kessaku into smaller units. Collections were healthy at ₹ 129 crore during Q3FY23.** 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 5.5-acre premium land parcel in Kolkata (at Alipore) having a gross developmental potential of ₹ 2,000 crore (1 mn sq ft of developmental area; overall capex including construction: ₹ 1000 crore) for ₹ 430 crore**
- Hospitality portfolio:** Hospitality business **revenues improved to ₹ 146 crore during Q3FY23 (up ~123% 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 81% during Q3FY23** Additionally, **ARR improved to ₹ 16392 in Q3FY23. With improved ARR and occupancy,**

revenue improved to ₹ 108.9 crore during Q3FY23. Further, improved revenue and various cost rationalisation exercises has translated into 45% EBITDA margin

- **Debt:** Gross debt as on Q3 was at ₹ 3953 crore (net debt ₹ 2090 crore, up by ₹ 135 crore QoQ). Average cost of borrowing was at 8.41% in December 2022 (vs. 7.89% in September 2022)
- **Lease status in under-construction malls:** aa) Palladium (Ahmedabad): to begin during February 2023; ~99% of retail GLA pre-leased by Q3FY23-end; rentals at ~₹ 140/ sq ft, b) Phoenix Millennium (Wakad): expected to start operation during H1FY24; commitments reached ~88% by Q3FY23-end; rentals at ~₹ 120-130/ sq ft, and c) Phoenix Mall of Asia (Hebbal, Bangalore): to begin operation by H1FY24; ~87% of retail GLA pre-leased by Q3FY23-end, rentals at ~₹ 150-160/ sq ft
- **Phoenix Citadel:** Phoenix Citadel, Indore commenced operation in December, 2022 and generated revenues of ₹ 4.6 crore. It has achieved leased occupancy of 94% as of January, 2023.
- **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 has been completed and rock anchoring excavation is in progress**
- **Kolkata project update:** Demolition work for on-site structure has been completed and currently piling and diaphragm work is in progress
- **Capex:** The company has incurred capex of ₹ 775 crore during Q3 and expects elevated level of capex, going forward, with many malls at the construction stage

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (Chg %)	Q2FY23	QoQ (Chg %)	Comments
Income from Operation	683.8	696.9	425.0	60.9	651.1	5.0	The retail revenues grew by ~59% YoY at ₹ 442.4 crore, while hospitality revenues were up by 123% YoY at ₹ 146.4 crore. We note that Retail Rental at ₹ 336 crore (up 59% YoY), are at ~121% of Q3FY20 (Pre-Covid level) and ~109% on a like-to-like basis. Commercial segment saw revenues growth of ~15.6% YoY at ₹ 42.3 crore. The revenues recognition of ₹ 52.7 crore in residential segment, was up 64% YoY
Other Income	34.7	30.0	22.0	57.8	32.4	7.1	
Total raw material Expense:	38.0	50.0	21.8	74.1	43.3	-12.2	
Employee cost	68.0	57.0	40.7	66.9	54.2	25.5	
Other expenditure	162.5	148.0	110.2	47.5	137.0	18.6	
EBITDA	384.5	403.9	230.5	66.8	380.9	1.0	
EBITDA Margin (%)	56.2	58.0	54.2	200 bps	58.5	-227 bps	
Depreciation	56.9	60.0	46.1	23.6	55.9	1.8	
Interest	86.6	87.0	68.6	26.3	83.4	3.8	
PBT	275.7	286.9	137.8	100.0	273.9	0.6	
Taxes	63.3	57.0	35.5	78.0	52.0	21.7	
Reported PAT	176.4	193.0	98.9	78.4	185.8	-5.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

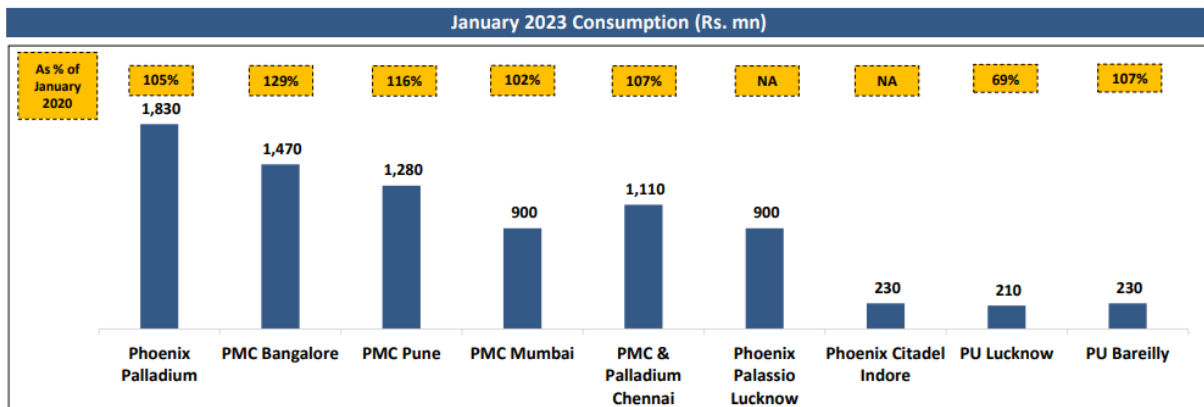
(₹ Crore)	FY23E		FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change			
Revenue	2597.4	3201.2	3131.4	-2.2	3,865.6	3821.2	-1.1	Realign estimates	
EBITDA	1484.2	1890.2	1824.4	-3.5	2,357.9	2312.2	-1.9		
EBITDA Margin (%)	57.1	59.0	58.3	-78 bps	61.0	60.5	-49 bps		
Adj. PAT	701.4	844.7	810.2	-4.1	1,090.6	1072.1	-1.7		
EPS (₹)	70.5	47.3	45.4	-4.1	61.1	60.1	-1.7		

Source: Company, ICICI Direct Research

Exhibit 3: January 2023 Consumption Trend



Retail consumption in January 2023 at 127% of January 2020



- Total consumption in January 2023 was Rs. 8,160 mn, 127% of January 2020
- Excl. contribution from Phoenix Palassio and Phoenix Citadel, which opened in July 2020 and December 2022 respectively; January 2023 consumption was 109% of January 2020
- Retail collections* at Rs. 2,037 mn for January 2023
- Consumption in Phoenix Palladium impacted by two key stores undergoing renovation. Overall, this negatively impacted reported growth for Phoenix Palladium by ~8%, like-to-like consumption growth by 3% and overall consumption growth by ~2%.

Note: Above numbers are indicative unaudited numbers and presented for illustration purpose. The actual numbers could be materially different from indicative numbers
*Retail collections inclusive of GST and CAM & other recoveries from retailers.

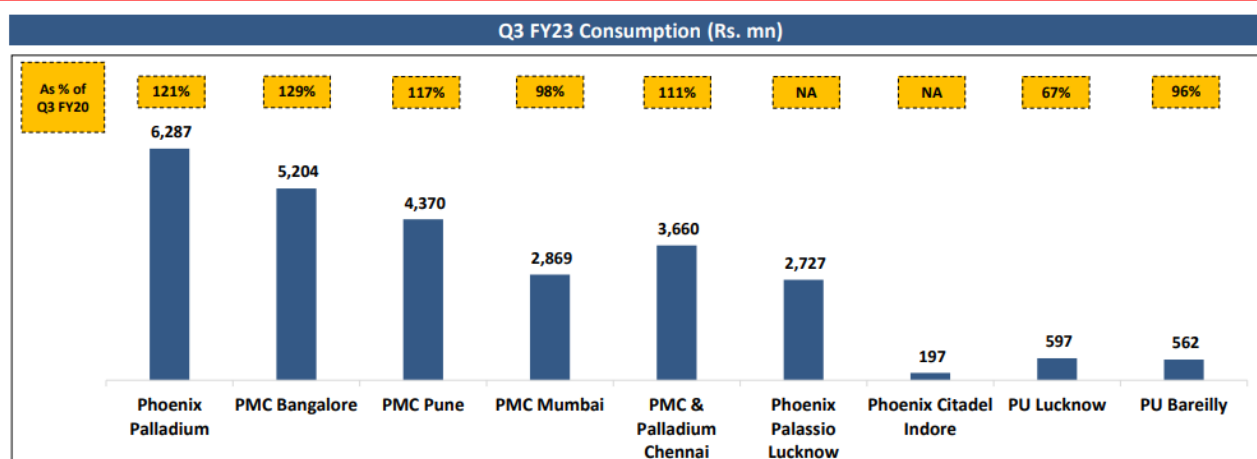
Source: Company, ICICI Direct Research

Company Analysis

Exhibit 4: Consumption Trend



Q3 FY23 Consumption at 128% of Q3 FY20 (pre-Covid quarter)



- Total consumption in Q3 FY23 was Rs. 26,474 mn, 128% of Q3 FY20
- Excl. contribution from Phoenix Palassio and Phoenix Citadel, which opened in July 2020 and December 2022 respectively; Q3 FY23 consumption was 114% of Q3 FY20
- Retail collections* at Rs. 5,401 mn for Q3 FY23

Note: Above numbers are indicative unaudited numbers and presented for illustration purpose. The actual numbers could be materially different from indicative numbers
*Retail collections inclusive of GST and CAM & other recoveries from retailers.

Source: Company, ICICI Direct Research

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Exhibit 5: Retail income trend

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY Growth (%)	QoQ Growth (%)
Rental Income (₹ crore)							
HSP & Palladium	72.5	73.6	94.5	91.3	99.1	36.7	8.5
PMC Mumbai	26.1	28.2	37.4	35.1	37.5	43.7	6.8
PMC Bangalore	38.6	37.1	46.0	47.2	50.7	31.3	7.4
PMC & Palladium Chennai*	41.8	34.6	49.4	48.9	47.5	13.6	(2.9)
PMC Pune	43.2	41.0	52.3	46.2	50.9	17.8	10.2
Phoenix Palassio	24.8	23.8	27.9	29.2	31.9	28.6	9.2
Phoenix United Lucknow	7.7	6.8	9.0	9.6	9.0	16.9	(6.3)
Phoenix United Bareilly	6.0	5.6	5.8	5.8	6.9	15.0	19.0
Phoenix Citadel Indore					2.8		

Source: Company, ICICI Direct Research

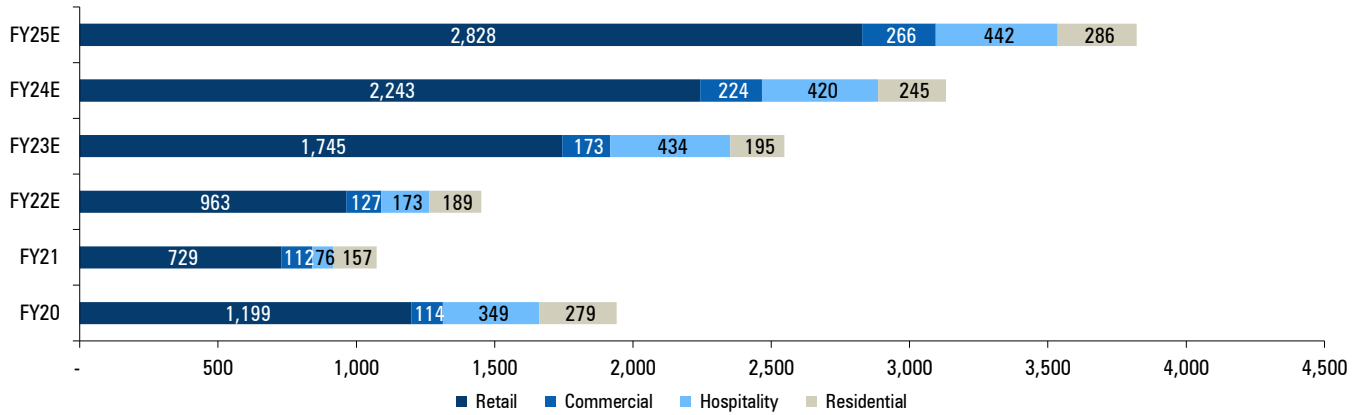
Exhibit 6: Commercial portfolio

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	93
Art Guild House	Mumbai	0.80	0.17	0.63	0.51	89
Phoenix House	Mumbai	0.09	0.00	0.09	0.07	183
Fountainhead - Tower 1	Pune	0.17	0.00	0.17	0.17	91
Fountainhead - Tower 2	Pune	0.26	0.00	0.25	0.13	72
Fountainhead - Tower 3	Pune	0.41	-	0.41	-	54
Total Operational		2.46	0.46	2.00	1.12	

Source: Company, ICICI Direct Research

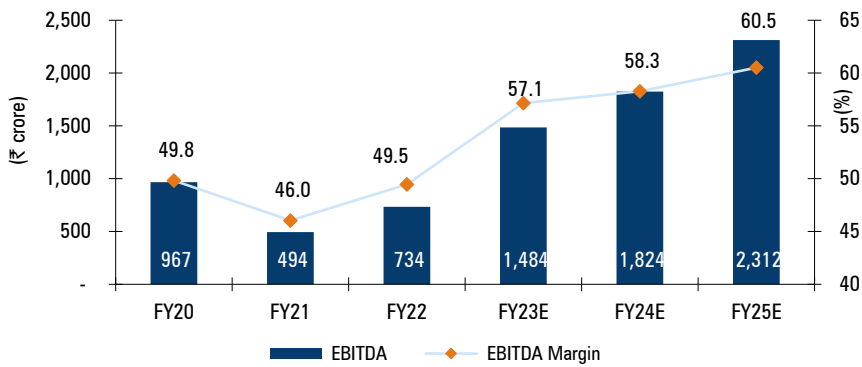
Financial story through charts

Exhibit 7: Revenue trend



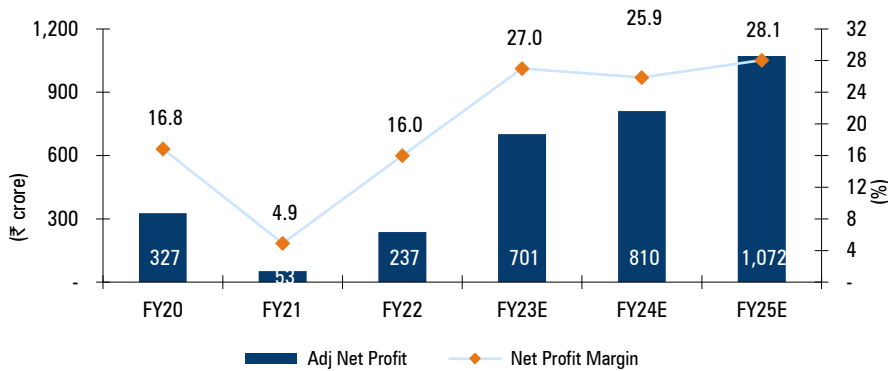
Source: Company, ICICI Direct Research

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 & 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 ₹ 2144 crore in FY20-25E. We maintain BUY rating with a revised SoTP based target price of ₹ 1650/share. Given that strategic inorganic expansion is now lined up, we now assign 20% 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	17,116.9	2,860.9	14,256.0	11797	661
Retail under construction	5.9	6744	2040	4704	2387	134
Retail Total	12.9	23,861	4,901	18,960	14,184	794
Commercial	Leasable area (msf)					
Commercial Operational	2.0	2074	54	2020	1624	91
Commercial under construction	5.1	6999	1068	5931	5167	289
Commercial Total	7.1	9,073	1,122	7,951	6,792	380
Hospitality	No of keys					
Hospitality Total	588	3,741	453	3,288	2,441	137
Residential	Saleable area (msf)					
Residential Total	3.4	1,162	30	1,132	1,132	63
Total					24,548	1,375
Premium for Growth (20%)					4,910	275
Grand Total					29,457	1,650

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement ₹ crore

₹ crore	FY22	FY23E	FY24E	FY25E
Net Sales	1,483.5	2,597.4	3,131.4	3,821.2
Other Income	74.4	122.9	119.8	125.8
Total revenues	1,557.9	2,720.2	3,251.2	3,947.0
Raw Material Expenses	103.0	142.9	172.2	210.2
Employee Cost	156.9	233.8	263.0	324.8
Other Expenditure	489.6	736.5	871.7	974.0
Total Operating Expenditure	749.6	1,113.1	1,306.9	1,509.0
EBITDA	733.9	1,484.2	1,824.4	2,312.2
Interest	294.5	334.2	361.4	370.1
Depreciation	185.9	224.8	304.3	317.6
PBT	328.0	1,604.8	1,278.6	1,750.4
Tax	80.1	216.6	319.6	437.6
Reported PAT	237.4	1,258.2	810.2	1,072.1
EPS	13.3	70.5	45.4	60.0

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

₹ crore	FY22	FY23E	FY24E	FY25E
Profit after Tax	237.4	1,258.2	810.2	1,072.1
Depreciation	185.9	224.8	304.3	317.6
Interest paid	294.5	334.2	361.4	370.1
Cash Flow before wc changes	767.0	2,163.9	1,944.2	2,438.0
Net Increase in Current Assets	(28.1)	(672.2)	(426.2)	(550.6)
Net Increase in Current Liabilities	99.4	690.9	318.0	429.2
Net cash flow from op. activities	780.6	1,965.9	1,516.3	1,879.0
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)	(826.5)	(1,117.1)	(1,104.1)
Proceeds from Long Term Borrowing	41.3	395.2	175.4	119.6
Interest paid	(279.5)	(334.2)	(361.4)	(370.1)
Net cash flow from fin. activities	2,227.6	(936.1)	(195.5)	(215.4)
Net Cash flow	78.7	203.4	203.8	559.4
Opening Cash	513.9	592.6	796.0	999.8
Closing Cash	592.6	796.0	999.8	1,559.2

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	7,708.0	8,508.7	9,615.9
Networth	6,582.5	7,743.7	8,544.4	9,651.6
Total Debt	4,379.5	4,774.7	4,950.0	5,069.6
Other financial liabilities	117.4	205.6	247.9	302.5
Deferred Tax Liability	4.8	4.8	4.8	4.8
Source of Funds	13,513	14,393	15,567	17,095
Gross Block	8,937.6	10,808.8	13,231.9	13,231.9
Less: Accumulated Dep	1,736.4	1,961.2	2,265.5	2,583.1
Net Block	7,201.3	8,847.7	10,966.4	10,648.8
Capital WIP	2,048.6	1,909.7	609.9	1,720.8
Total Fixed Assets	9,249.9	10,757.3	11,576.3	12,369.6
Investments	493.2	493.2	493.2	493.2
Inventories	749.8	1,067.4	1,286.9	1,570.4
Trade Receivables	279.9	355.8	429.0	523.5
Loans & Advances	88.8	155.4	187.3	228.6
Cash & Bank Balances	592.6	796.0	999.8	1,559.2
Other Current Assets	282.5	494.6	596.3	727.6
Total Current Assets	3,817.7	3,793.3	4,423.4	5,533.4
Trade Payable	129.9	227.4	274.1	334.5
Provisions	156.8	260.4	296.8	362.1
Other Current Liabilities	535.0	936.7	1,129.3	1,378.1
Total Current Liabilities	821.7	1,424.5	1,700.2	2,074.7
Net Current Assets	2,996.0	2,368.9	2,723.2	3,458.7
Application of Funds	13,513	14,393	15,567	17,095

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

₹ crore	FY22	FY23E	FY24E	FY25E
Per Share Data				
Reported EPS	13.3	70.5	45.4	60.0
Adjusted EPS	13.3	39.3	45.4	60.0
BVPS	368.7	433.7	478.6	540.6
Operating Ratios				
EBITDA / Net Sales	49.5	57.1	58.3	60.5
PAT / Net Sales	16.0	27.0	25.9	28.1
Return Ratios				
RoE	3.6	9.1	9.5	11.1
RoCE	4.6	9.6	10.5	12.4
RoIC	6.7	12.7	12.5	16.6
Valuation Ratios				
EV / EBITDA	36.0	18.6	15.1	11.7
P/E	103.1	19.5	30.2	22.8
EV / Net Sales	17.8	10.6	8.8	7.1
Market Cap / Sales	16.5	9.4	7.8	6.4
Price to Book Value	3.7	3.2	2.9	2.5
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

RATING RATIONALE

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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, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

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