June 27, 2022

Retail/office to witness strong pickup…

We see continued healthy traction in residential real estate while a sharp recovery in rental assets (malls/office) is expected to be seen, as the full-fledged economic activity kicks in FY23. Overall momentum will also boost building materials players in the tiles/ply space, along with structural shift in the form of higher market share for organised players as they expand to Tier 3 cities and beyond. Our top bets in real estate are **Phoenix Mills (BUY rating; target price: ₹ 1,320)** and **Brigade Enterprises (BUY rating; target price: ₹ 550)** while our top bets in the building materials space would be **Kajaria Ceramics (BUY rating; target price: ₹1165)** and **Century Ply (BUY rating; target price: ₹ 660).**

Economic activity/office re-occupancies to drive rental assets

Malls were the most impacted segment amid Covid disruptions in FY21, FY22, as they had to provide rental waivers amid closures. However, FY23 is likely to be a normalised year with rental resetting also witnessing uptick after two years of lull. Similarly, office absorption was also impacted owing to work from home/hybrid work. Note that, as per Cushman and Wakefield, Grade A offices net absorption across India's top seven cities in CY20 and CY21 was at ~20 million sq feet (msf) vs. ~42 msf in CY19. We highlight that as per Cushman and Wakefield, Grade A offices net absorption across India's top seven cities have increased by 65% YoY to 6.msf in Q1CY22 as "back of office" led re-occupancies have started. We expect this trend to continue and drive overall absorption for rental assets players. Brigade expects majority of yet to be transacted commercial area (2.1 mn sq ft) to get leased by FY23-end. Also, the company expects to launch 2 mn sq ft towards commercial lease and for sale project during FY23. Thus, Brigade is expected to be a key beneficiary of office re-occupancies while Phoenix Mills will be a quasi-play on consumption recovery through malls.

Residential launches robust; top players in sweet spot

The residential segment saw strong growth in sales volumes/value in FY22 with top eight listed developers reporting ~50% growth in sales value at ₹ 45766 crore. We note that this was driven by strong launch pipeline in FY22, which was up ~63% YoY at 54 msf. We note that, going ahead, in FY23, strong launch pipeline is stacked up with ~78 msf of launches. Thus, sales volume traction is likely to be maintained. Overall pricing growth guidance has been 8-10%, mainly to counter cost inflation. However, cooling commodity prices and higher interest rates may likely result in lower price hike. Most importantly, most top players have deleveraged through strong collections and are sitting at comfortable liquidity, implying lesser balance sheet challenge for them. IT hub based players like Brigade would also benefit from strong salary growth seen in its key market. Building material segment leaders such as Kajaria Ceramics and Century Ply would also benefit from sustained traction in residential segment.

Prefer well capitalised, quasi-consumption and diversified plays as top picks…

Nifty Real estate index has outperformed broader markets and is up ~12% in the last one year vs. flattish Nifty in the same period. Key supportive factors for residential demand has been improved affordability, consolidation of supply, superior execution by top developers driving trust. Similarly, rental assets would also face better absorption as the normalised activity (office re-occupancies/malls operations & consumption) have kicked in. We continue to stick with players where we see healthy balance sheets, strong tailwinds from segment such as malls, commercial, hospitality as well as consumption led growth.

Sector View: Positive

Top Picks in Real Estate, Building Material Space

	Rating	CMP	Target price	Upside
Phoenix Mills	BUY	1134	1320	16%
Brigade Enterprises	BUY	442	550	25%
Century Ply	BUY	520	660	27%
Kajaria Ceramics	BUY	939	1165	24%

Key risks to our call

- Any further Covid waves impacting office/malls segment or Tiles/Ply volumes
- Steeper interest rates impacting residential affordability

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Sector Update

ICICI Securities – Retail Equity Research

Top bets in Real Estate Universe

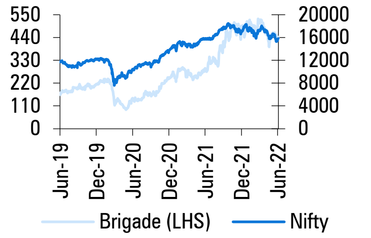
Brigade Enterprises (BRIENT)

Brigade Enterprises (BEL) offerings include Grade-A commercial property, affordable to ultra-premium housing in real estate business and operational marquee hotel assets in hospitality segment in South India

- BEL expects to launch ~8 msf in the residential business during FY23 (approvals already in-place for ~5.5 msf), which will aid sales volume, going ahead, along with continued traction in ongoing/completed projects
- Going forward, the management expects majority of yet to transacted area (2.1 msf) to get leased by FY23-end. Also, the company expects to launch 2 msf towards commercial lease and for sale project during FY23

The volume trajectory is healthy with strong end user demand and IT sector tailwind remain. Retail and hospitality recovery is on track. BEL has comfortable debt-equity and sufficient liquidity from operational commercial assets. While rising interest rate scenario can be a hurdle if it extends sharply for longer period, end user demand tailwind is strong. We maintain BUY with an SoTP target price of ₹ 550/share.

Price Chart



Particulars

Particulars	Amount (₹ crore)
Market Capitalization	10,167.1
Total Debt	4,932.5
Cash	559.4
EV	14,540.2
52 week H/L (₹)	555/ 269
Equity capital	230.3
Face value (₹)	10.0

Exhibit 1: Financial Summary

(₹ crore)	FY20	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	2632.2	1950.0	2998.8	8.2%	3468.3	3844.8	13.2%
EBITDA	663.2	471.9	766.3	5.9%	1011.0	1182.9	24.2%
EBITDA Margin(%)	25.2	24.2	25.6		29.1	30.8	
Net Profit	130.6	-46.3	82.8	2.5%	174.6	234.4	68.3%
EPS (₹)	6.2	-2.2	3.6		7.6	10.2	
P/E(x)	71.3	NM	122.8		58.2	43.4	
EV/EBITDA(x)	21.6	30.6	17.7		13.9	11.5	
RoE(%)	5.7	-2.0	2.8		5.8	7.6	
RoCE(%)	7.6	4.1	6.2		9.4	11.6	

Source: Company, ICICI Direct Research

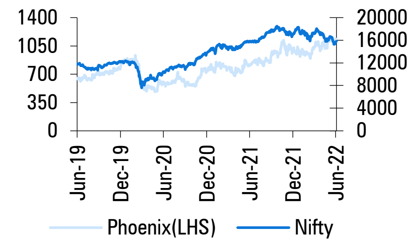
Phoenix Mills (PHOMIL)

Phoenix Mills (PML) is a leading retail mall developer with operational retail area of ~7 msf spread over nine operational malls and is developing ~6 msf of retail space. It has 2 msf operation in the commercial segment and plans to add ~5 msf.

- Over the medium term, we expect retail rental income to grow at a CAGR of ~13% to ₹ 1884 crore in FY20-25E
- In commercial space, leasing momentum is likely to continue in FY23 (already done gross leasing of 1.2 lakh sq ft during April-May 2022)

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 and 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 maintain BUY rating with a SoTP based target price of ₹ 1320/share

Price Chart



Particulars

Particular	Amount (₹ crore)
Market Capitalization	20,250.4
Total Debt (FY22)	4,379.5
Cash (FY22)	592.6
EV	24,037.3
52 week H/L (₹)	1195 / 793
Equity capital	35.7
Face value	₹ 2

Exhibit 2: Financial summary

(₹ Crore)	FY20	FY21	FY22	5 yr CAGR (FY16-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales (₹ crore)	1,941.1	1,073.3	1,483.5	-4%	2,308.4	2,850.1	39%
EBITDA (₹ crore)	967.1	494.2	733.9	-3%	1,227.4	1,581.0	47%
EBITDA margin (%)	49.8	46.0	49.5		53.2	55.5	
Adj. Net Profit (₹ crore)	327.0	52.6	237.4	7%	494.5	627.1	63%
Adj. EPS (₹)	21.4	2.9	13.3		27.7	35.1	
P/E (x)	51.9	384.9	85.3		41.0	32.3	
EV/EBITDA (x)	25.1	48.0	30.3		19.6	15.3	
Price / Book (x)	4.7	4.1	3.1		2.9	2.6	
RoCE (%)	8.6	3.6	4.6		7.9	9.3	
RoE (%)	8.8	1.1	3.6		7.0	8.2	

Source: Company, ICICI Direct Research

Top bets in Building Materials Universe

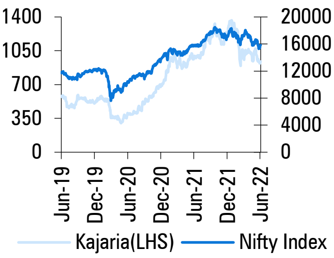
Kajaria Ceramics (KAJCER)

Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with a current annual capacity of 82.8 mn square metre. Apart from completed capex of ₹ 250 crore on tiles, it is doing ₹ 80 crore capex in the sanitaryware segment.

- Kajaria announced that a capex of ₹ 250 crore has been completed and ₹ 80 crore capex (revenue potential ₹ 160-170 crore) in the sanitaryware segment will be done, which will drive growth ahead. We expect 14% CAGR in tiles volume and realisations CAGR of 2.5%, resulting in tiles revenues CAGR of 17% over FY22-24 to ₹ 4591 crore
- The increased dividend payout (~45% vs. 20-25%, earlier) is likely to improve return ratios (RoCEs likely at 24%+ in FY24E vs ~21% currently)

Kajaria with a net cash balance sheet and superior brand, is a quasi-play on an improved scenario of real estate and expanding reach to tier II, III cities. Post a steep correction in the last six months, we believe gas price uncertainty is largely built in. **We maintain BUY rating with a target price of ₹ 1165/share (35x FY24 P/E).**

Price Chart



Particulars

Particular	Amount (₹ crore)
Market Capitalization	14,921
Total Debt (FY22)	128
Cash (FY22)	424
EV	14,624
52 week H/L (₹)	1375 / 885
Equity capital	15.9
Face value (₹)	1.0

Exhibit 3: Financial Summary

(₹ crore)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	2,808.0	2,780.9	3,705.2	7.8%	4,542.2	5,086.5	17.2%
EBITDA	415.9	508.8	610.8	4.2%	725.6	837.7	17.1%
EBITDA Margin (%)	14.8	18.3	16.5		16.0	16.5	
PAT	255.3	308.1	377.1	8.3%	452.0	528.4	18.4%
EPS (₹)	16.1	19.4	23.7		28.4	33.2	
P/E (x)	58.5	48.5	39.6		33.0	28.3	
P/B (x)	8.7	8.0	7.0		6.4	5.7	
EV/EBITDA (x)	35.6	28.6	23.9		20.6	17.7	
RoCE (%)	16.3	19.7	21.5		23.6	24.8	
RoE	14.9	16.5	17.8		19.4	20.2	

Source: Company, ICICI Direct Research

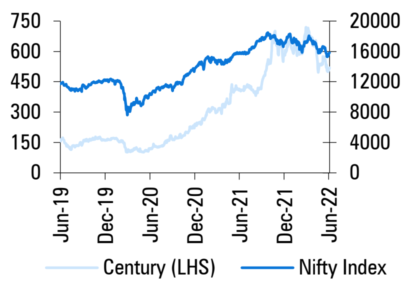
Century Ply (CENPLY)

Century Plyboards is India's leading plywood manufacturer with a market share of ~25% in the country's organised segment of plywood sector. It derives majority of revenues from plywood (53% of FY22 revenue), followed by laminates (19%), and MDF (18.5%) segments.

- We expect ~15% CAGR in FY22-24 in plywood revenues to ₹ 2079 crore, led by a) pent-up demand, b) benefits arising due to *ViroKill* technology and market share gain
- Strong growth traction in MDF with ~26% CAGR in FY22-24 in MDF revenues to ₹ 876 crore, also aided by new capacity offtake in FY23, FY24

Century continues to report industry leading growth stable margins and net cash balance sheet with internal accruals fuelling the expansion. We maintain BUY rating with a target price of ₹ 660/share (32x FY24 P/E).

Price Chart



Particulars

Particular	Amount (₹ crore)
Market Capitalization	11,544
Total Debt (FY22)	196
Cash & Inv (FY22)	250
EV	11,491
52 week H/L (₹)	749 / 342
Equity capital	22.3
Face value (₹)	1.0

Exhibit 4: Financial summary

₹ crore	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	2,282.7	2,113.5	3,000.9	11.0%	3,566.3	4,024.9	15.8%
EBITDA	304.1	335.4	534.6	12.9%	640.7	746.3	18.2%
EBITDA Margin (%)	13.3	15.9	17.8		18.0	18.5	
PAT	158.2	203.9	325.3	11.9%	417.1	457.2	18.6%
EPS (₹)	7.1	9.2	14.6		18.8	20.6	
P/E	73.0	56.7	35.5		27.7	25.3	
EV/EBITDA	38.8	34.3	21.5		18.8	16.0	
RoNW (%)	14.7	16.1	20.8		21.4	19.4	
RoCE (%)	19.1	20.7	27.3		22.8	22.9	

Source: Company, ICICI Direct Research

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Reduce: -5% to -15%;
Sell: <-15%

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