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Company update

Real Estate

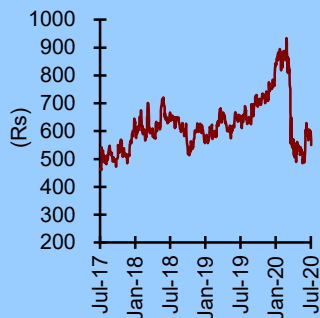
Target price: Rs800

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	59.2	59.1	59.1
Institutional investors	33.3	36.7	36.6
MFs and other	5.9	8.0	9.9
FIs/Banks/Ins	0.1	0.1	0.2
FIIIs	27.3	28.6	25.5
Others	7.5	4.2	4.3

Source: NSE

Price chart



INDIA

The Phoenix Mills

BUY

Maintained

Rs583

Lucknow mall opening to drive growth

Phoenix Mills' (PHNX) Palassio mall located in the city of Lucknow, Uttar Pradesh in North India has opened on 8th July, 2020. The mall has 0.95msf leasable area and is 100% leased. The mall has opened with 50% of permissible area or ~150 stores (excludes multiplexes and few other tenants) with another 30% of area under fit-outs. PHNX has given a 50% rental waiver for July-September 2020 considering COVID-19 impact and we expect Palassio mall to achieve Rs0.5bn of rental income in FY21E considering rental waivers but expect the mall to achieve rental income of over Rs1bn in FY22E as occupancy and consumption sees a ramp-up. We expect PHNX to achieve a 13% rental income CAGR over FY20-25E and reiterate our BUY rating with a SOTP based target price of Rs800/share.

- Lucknow Mall opening a positive sign:** PHNX's Palassio, Lucknow mall has opened on 8th July, 2020 with 50% of permissible area or ~150 stores (excludes multiplexes and few other tenants) with another 30% of area under fit-outs currently. The multiplex is also ready but will open after Central and State Government directives to commence operations. The mall has over 300 different retailers with blended rentals in excess of Rs100/psf/month. Prominent retailers at Palassio include brands like H&M, Aldo, Mango, Bath & Body Works, Steve Madden, The Collective, Under Armour, Brooks Brothers, Armani Exchange, Gas, Cover Story, Charles & Keith and Starbucks. Anchor tenants in the mall include Lifestyle, Westside, Marks & Spencer, Shoppers Stop, Pantaloons, Max and Big Bazaar.
- Clarity has emerged on rental waivers in operational malls:** PHNX has reached an agreement to waive 50% of rent for lockdown period with 75-80% of retailers (except for multiplexes). Further, post malls opening after lockdown, PHNX would consider a waiver of 30% on minimum guarantee for 3-6 months. We have assumed that PHNX will lose Rs4.0bn or 40% of FY20 rental income in FY21 (on like-for-like basis) and expect PHNX to clock FY21E rental income of Rs6.6bn.
- Estimated rental income CAGR of 13% over FY20-25E:** At a portfolio level, PHNX will have ~11msf operational mall space by FY23-24E (5msf currently excluding Palassio, Lucknow). After accounting for COVID-19 induced revenue loss, we expect PHNX to achieve a 13% rental income CAGR (ex-CAM) at a portfolio level over FY20-25E which may result in PHNX clocking over Rs19bn of rental income in FY25E vs. ~Rs10bn in FY20. Of the Rs19.0bn of estimated gross rental income in FY25E, PHNX share is ~76% or Rs14.5bn.

Market Cap	Rs89bn/US\$1.2bn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	PHOE.BO/PHNX IN	Revenue (Rs bn)	19.8	19.4	14.2	19.9
Shares Outstanding (mn)	153.5	Rec. Net Income (Rs bn)	4.2	3.3	0.9	3.6
52-week Range (Rs)	934/484	EPS (Rs)	27.5	21.9	6.1	23.6
Free Float (%)	40.8	% Chg YoY	73.8	(20.5)	(72.0)	285.6
FII (%)	25.5	P/E (x)	20.3	25.5	91.2	23.7
Daily Volume (US\$/'000)	1,698	P/B (x)	2.5	2.3	2.3	2.1
Absolute Return 3m (%)	5.4	EV/E (x)	13.0	13.4	18.7	11.6
Absolute Return 12m (%)	(7.1)	Dividend yield (%)	0.7	0.7	0.7	0.7
Sensex Return 3m (%)	18.5	RoCE (%)	11.9	9.5	5.2	9.6
Sensex Return 12m (%)	(3.9)	RoE (%)	12.2	8.4	1.6	8.4

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Lucknow Mall opening to spur medium-term growth

The Phoenix Palassio Mall located in Lucknow, Uttar Pradesh, North India and having 0.95msf of gross leasable area was set to open on 14th March 2020. Owing to COVID-19 related lockdown, the mall has now opened on 8th July, 2020.

As per company management, the Mall which has been 100% pre-leased has opened with 50% of permissible area or ~150 stores (excludes multiplexes and few other tenants) with another 30% of area under fit-out currently. The multiplex is also ready but will open after Central and State Government directives to commence operations.

The mall has over 300 different retailers across categories and blended rentals achieved by PHNX are in excess of Rs100/psf/month. Prominent retailers at the mall include brands like H&M, Aldo, Mango, Bath & Body Works, Steve Madden, The Collective, Under Armour, Brooks Brothers, Armani Exchange, Gas, Cover Story, Charles & Keith and Starbucks. Anchor tenants in the mall include Lifestyle, Westside, Marks & Spencer, Shoppers Stop, Pantaloons, Max and Big Bazaar.

Considering the COVID-19 impact on consumer sentiment and footfalls/consumption in the short-term, PHNX has given a 50% rental waiver for the first three months of operations (July-September 2020). We expect the Lucknow Mall to achieve Rs0.5bn of rental income in FY21E considering rental waivers but expect the mall to achieve rental income of over Rs1bn in FY22E as occupancy and consumption sees a ramp-up.

Exhibit 1: Lucknow Mall Exterior



Source: Company data, I-Sec research

Exhibit 2: Lucknow Mall Interior

Source: Company data, I-Sec research

COVID-19 to impact H1FY21 consumption/rentals

Owing to COVID-19 concerns, State Governments across India have ordered mall closures from 14th March, 2020 onwards for an indefinite period in cities such as Mumbai, Bengaluru, Pune and Chennai where PHNX's malls are located. As per our checks, only hypermarkets (groceries) in malls in these cities are operational. However, multiplexes, apparel/department stores, food QSRs and other retailers face a double whammy of lost sales and having to pay store rentals which typically range between 15-25% of store revenue/consumption.

With the COVID-19 issue likely to linger till at least Q2FY21 (July-September 2020), in the worst case, PHNX stands to lose 40-50% of its FY21E revenue. As per PHNX, they have reached an agreement to waive 50% of rent for lockdown period with 75-80% of retailers (except for multiplexes). Further, post malls opening after lockdown, PHNX would consider a waiver of 30% on minimum guarantee for 3-6 months. We have assumed that PHNX will lose Rs4.0bn or 40% of FY20 rental income in FY21 (on like-for-like basis) owing to COVID-19 and expect FY22E rental income to recover to FY20 levels of Rs10.0bn. Hence, we expect PHNX to now see 35% YoY decline in rental income (ex-CAM) to Rs6.6bn in FY21E (adjusted for some marginal revenues from new Lucknow mall).

Table 1: Key historical numbers and assumptions (including new assets)

Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E
Rental properties						
Net rental income - 100% share	7,912	8,705	9,902	10,198	6,591	11,930
Net rental income - PHNX share	6,893	7,333	7,933	8,566	5,614	10,205

Source: Company data, I-Sec research

Table 2: Quarterly operating metrics

Rs mn	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Consumption						
High Street Phoenix (HSP)	4,755	4,013	4,228	4,017	5,195	3,663
Pune Market City	3,405	2,820	3,331	3,144	3,747	2,371
Bengaluru Market City	3,514	3,048	3,364	3,205	4,019	2,552
Kurla Market City	2,654	2,356	2,589	2,378	2,928	1,896
Chennai Market City	2,898	2,446	2,677	3,013	3,309	2,256
Total	17,226	14,683	16,189	15,757	19,198	12,738
Trading Density (Rs/psf) on Carpet Area						
High Street Phoenix (HSP)	3,271	2,827	3,025	2,816	3,620	3,208
Pune Market City	1,501	1,222	1,441	1,370	1,663	1,338
Bengaluru Market City	1,848	1,589	1,749	1,676	2,085	1,670
Kurla Market City	1,292	1,059	1,222	1,137	1,415	1,129
Chennai Market City	1,566	1,324	1,435	1,350	1,485	1,259
Rental Rate ((Rs/psf) of Leasable Area						
High Street Phoenix (HSP)	403	392	406	383	413	403
Pune Market City	123	116	125	124	136	128
Bengaluru Market City	124	118	124	126	138	130
Kurla Market City	99	97	101	102	108	110
Chennai Market City	139	137	139	140	141	139
Net Rental Income (ex-CAM)						
High Street Phoenix (HSP)	886	868	881	879	946	780
Pune Market City	416	406	432	427	458	350
Bengaluru Market City	361	347	359	360	400	307
Kurla Market City	311	310	323	320	339	283
Chennai Market City	388	384	394	475*	482*	385*
Total	2,362	2,315	2,389	2,461	2,625	2,105

Source: Company data, I-Sec research, *Includes Palladium Chennai

Renegotiations deferred by 6-12 months

PHNX's existing mall properties were on the cusp of seeing healthy upward rental renegotiations and with over 50-70% space up for renewal across its key malls at High Street Phoenix and all Market City malls over FY21-FY23E, PHNX was in the process of negotiating existing leases with tenants.

However, post COVID, PHNX has deferred contract renewal discussion and extended existing contracts by 6 to 12 months on same rental (minimum guarantee) terms.

Chart 1: HSP and Palladium

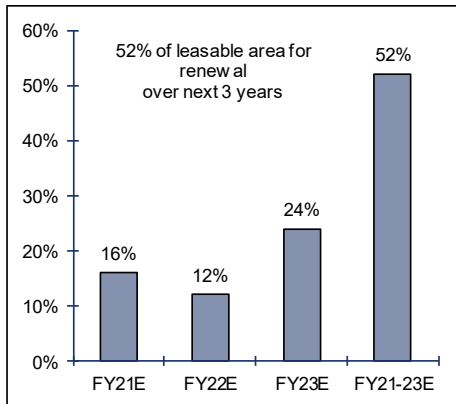


Chart 2: PMC Bangalore

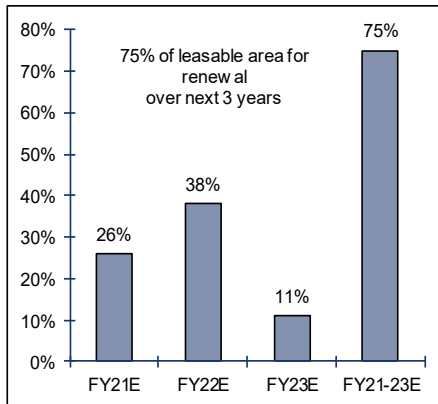


Chart 3: PMC Mumbai

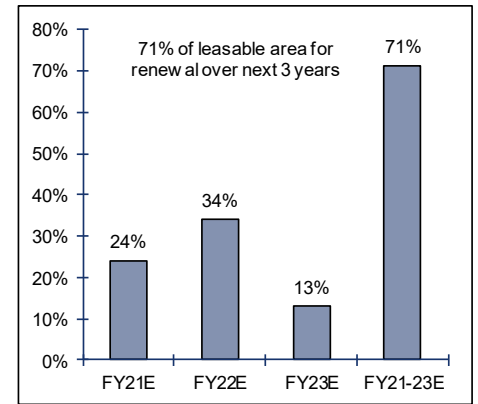


Chart 4: PMC Pune

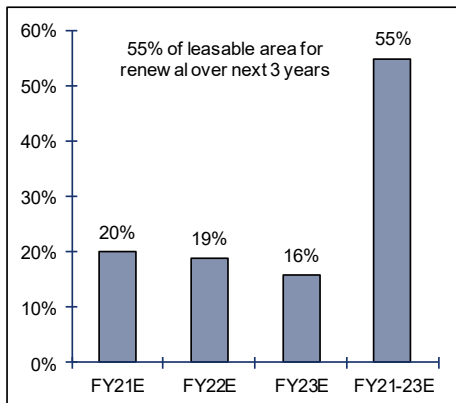
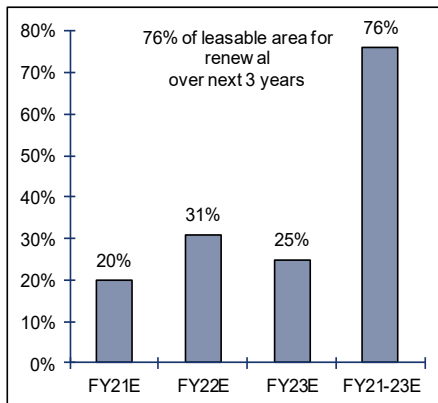
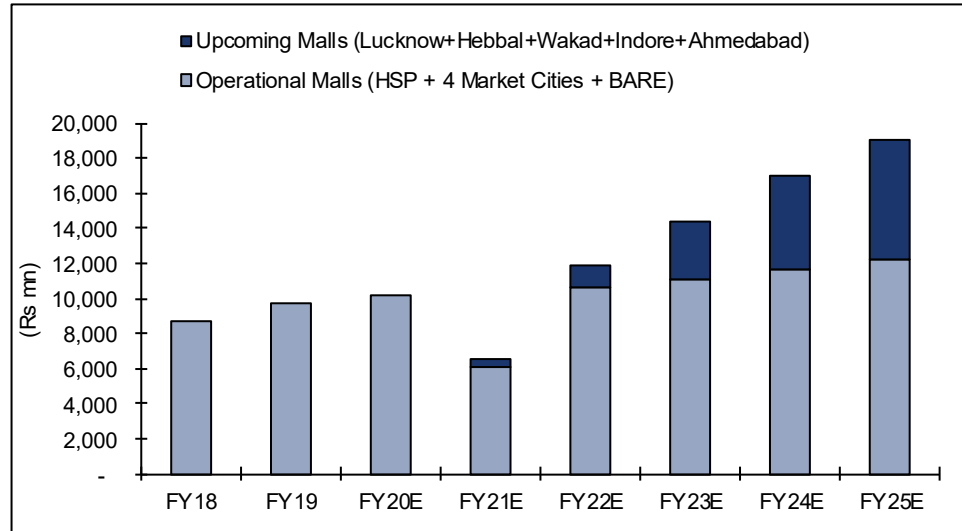


Chart 5: PMC Chennai



Source: Company data, I-Sec research

Chart 6 : Rental income CAGR of 13% over FY20-25E



Source: Company data, I-Sec research

Valuations & views

- We like PHNX because: (1) it has a strong brand recall and is the market leader in malls across India (2) it has strong pipeline of projects and (3) it is a derivative play on the Indian consumption story.
- We have valued PHNX on SoTP basis with a combination of DCF-based NAV on FY20E basis assuming a cap rate of 9% for rental assets.
- We retain our BUY rating with a revised target price of Rs800/share based on 1x FY20E NAV which factors in one-time like-for-like loss of Rs4.0bn of rental income in FY21 across existing malls and 6-9 months delay in under construction assets.
- Key upside risks are: Higher than expected rental income growth across operational malls and under-construction malls achieving higher than estimated rental income on commencement of operations.
- Key downside risks are: Slowdown in discretionary spend hurting consumption and rental growth owing to COVID-19 induced slowdown, competing malls set to become operational near High Street Phoenix (Oberoi Worli Mall) in FY22-23E and online retail channels.

Table 3: SoTP valuation

Project	PHNX FY20 GAV (Rs mn)	Rs/share	% of GAV
High Street Phoenix	42,579	278	26.8
Kurla (Offbeat Developers)	15,008	98	9.5
Pune (Vamona Developers)	17,251	113	10.9
Bengaluru East (Island Star) – for 51% stake	12,457	81	7.8
Pune Wakad (CPPIB-Island Star) – for 51% stake	5,684	37	3.6
Bengaluru Hebbal (CPPIB-Island Star) – for 51% stake	7,550	49	4.8
Ahmedabad Market City (BSafal) – for 50% stake	1,780	12	1.1
Indore Market City (CPPIB-Island Star) – for 51% stake	4,007	26	2.5
Lucknow – Gomti Nagar Market City – for 100% stake	14,143	92	8.9
Bengaluru West (Palladium/Platinum) – for 80% stake	7,200	47	4.5
Chennai (Classic Mall)	9,850	64	6.2
St. Regis Hotel (Pallazio) – for 73% stake	9,748	64	6.1
BARE (Lucknow & Bareilly)	6,597	43	4.2
Others	4,951	34	3.1
Total GAV	158,805	1,038	100.0
Less: FY20 Net Debt (PHNX economic share)	36,346	238	
FY20 NAV	122,459	800	

Source: Company data, I-Sec research estimates

Financial Summary (consolidated)

Table 4: Earnings statement
(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Sales	19,816	19,411	14,205	19,920
Operating Expenses	9,884	9,740	7,251	8,564
EBITDA	9,931	9,671	6,954	11,356
<i>% margins</i>	50%	50%	49%	57%
Depreciation & Amortisation	2,042	2,076	2,787	2,868
Interest expenses	3,506	3,478	3,854	4,056
Other Income	851	585	614	645
Exceptional items	481	78	-	-
PBT	4,754	4,624	927	5,077
Less: Taxes	1,098	1,221	185	1,015
PAT before				
Minority/Associate	3,656	3,403	742	4,062
Minority/Associate share	555	(56)	194	(453)
Net Income (Reported)	4,211	3,347	936	3,609

Source: Company data I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	18,159	19,117	22,536	21,263
<i>of which cash & cash eqv.</i>	1,920	1,407	5,076	4,053
Total Current Liabilities & Provisions	8,716	9,871	7,626	7,730
Net Current Assets	9,444	9,246	14,910	13,533
Goodwill/Investments	11,161	9,608	9,608	11,608
Net Fixed Assets	61,489	60,795	61,948	61,389
Capital WIP	8,960	15,341	12,982	17,713
Total Assets	91,053	94,990	99,448	1,04,243
Liabilities				
Borrowings	45,469	45,731	49,731	50,731
Equity Share Capital	307	307	307	307
Reserves & Surplus*	34,435	36,777	37,086	40,069
Net Worth	34,741	37,083	37,393	40,375
Minority Interest	12,233	12,788	12,936	13,749
Deferred Taxes	(1,390)	(612)	(612)	(612)
Total Liabilities	91,053	94,990	99,448	1,04,243

Source: Company data I-Sec research

Table 6: Cashflow statement
(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
PBT	4,754	4,624	927	5,077
Depreciation	2,042	2,076	2,787	2,868
Non-Cash Adjustments	610	(914)	(913)	(912)
Working Capital Changes	(5,749)	(985)	(1,995)	354
Taxes Paid	(1,098)	(1,221)	(185)	(1,015)
Operating Cashflow	559	3,581	620	6,372
Capital Commitments	(14,606)	(7,801)	(1,467)	(7,040)
Free Cashflow	(14,047)	(4,220)	(846)	(668)
Other investing cashflow	609	-	-	(2,000)
Cashflow from Investing				
Activities	(13,997)	(7,801)	(1,467)	(9,040)
Issue of Share Capital*	9,035	63	-	-
Inc (Dec) in Borrowings	5,301	878	4,000	1,000
Dividend paid	(480)	(555)	(627)	(627)
Cashflow from Financing				
activities	13,856	387	3,373	373
Chg. in Cash & Bank				
balances	418	(3,833)	2,527	(2,294)

Source: Company data I-Sec research, *CPPIB equity infusion

Table 7: Key ratios
(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	27.5	21.9	6.1	23.6
Cash EPS	40.9	35.4	24.3	42.3
Dividend per share (DPS)	3.7	3.7	3.7	3.7
Book Value per share (BV)	227.1	242.4	244.4	263.9
Growth (%)				
Net Sales	22.3	(2.0)	(26.8)	40.2
EBITDA	27.7	(2.6)	(28.1)	63.3
PAT	73.8	(20.5)	(72.0)	285.6
Valuation Ratios (x)				
P/E	20.3	25.5	91.2	23.7
P/BV	2.5	2.3	2.3	2.1
EV / EBITDA	13.0	13.4	18.7	11.6
Dividend Yield	0.7	0.7	0.7	0.7
Operating Ratios				
Debt/EBITDA (x)	4.6	4.7	7.2	4.5
Net D/E	1.3	1.2	1.2	1.2
Return Ratios (%)				
RoE	12.2	8.4	1.6	8.4
RoCE	11.9	9.5	5.2	9.6
EBITDA Margins	50.1	49.8	49.0	57.0
Net Income Margins	21.2	17.2	6.6	18.1

Source: Company data I-Sec research

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