

Asset monetisation at favourable terms...

Phoenix Mills (PML) has entered into a non-binding term sheet with GIC affiliates for a strategic retail led mixed use development platform. PML will contribute *Phoenix Marketcity Mumbai*, *Phoenix Marketcity Pune*, *Art Guild House* (office), *Phoenix Paragon Plaza* (office) and *Centrium Mumbai* (office) as a part of the platform. GIC, on the other hand, will invest by way of a combination of primary infusion and secondary purchase of equity shares for a 26% stake initially at an enterprise value of ~₹ 5600-5700 crore.

Deal contours and implications

- Together, these assets, which are held by the PML subsidiaries, constitute a retail gross leasable area (GLA) of ~2.33 million square feet (msf) and office GLA of ~1.03 msf, aggregating to GLA of 3.36 msf with FY20 net operating income (NOI) of ~₹ 370 crore. **We note that these assets had gross outstanding debt of ~₹ 1299 crore, which implies overall equity valuation of ~₹ 4300-4400 crore (and cap rate of ~6.5-6.6%). We have assigned equity value of ~₹ 3700 crore to these assets.**
- The proceeds from the proposed transaction are intended to be utilised as growth capital for further expansion and acquisition of greenfield, brownfield, operational and/or distressed mall opportunities. **Since it is a mix of primary infusion and secondary purchase of equity shares, actual inflow is not known now**
- The deal also has a provision, whereby if agreed by both parties, GIC can further increase its stake up to 35% within a 12-month period from the closing of the proposed transaction
- **We expect the companies to eventually monetise to the platform, including by way of a REIT, over the medium term**

Valuation & Outlook

PML remains a quasi-play on India's consumption story, notwithstanding the weak transient phase in FY21, given the quality of assets, healthy balance sheet & strategic expansion plans. We believe the deal is at favourable terms, given the challenging phase amid Covid-19 led impact. The QIP fund raise and monetisation proceed from the deal will boost the gross cash and equivalent position that was already at healthy levels of ~₹ 1800 crore. PML is poised to lap up a few assets as well as sail through with comfortable liquidity. With only five to six major retail mall developers currently in India, and given PML's USP of operating large format properties efficiently, it is best placed for overall opportunity in the space. We maintain **BUY** rating with a revised SoTP based target price of ₹ 795/share. The lower implied cap rate in the deal prompts us to reduce our cap rate estimates of 8% (for operational assets) vs. 8.5%, earlier, resulting in a target price hike.

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales (₹ crore)	1,619.8	1,981.6	1,941.1	1,194.9	2,083.7	3.6%
EBITDA (₹ crore)	777.4	993.2	967.1	491.4	1,069.7	5.2%
EBITDA margin (%)	48.0	50.1	49.8	41.1	51.3	
Adj. Net Profit (₹ crore)	242.2	372.9	327.0	13.7	399.2	10.5%
Adj. EPS (₹)	15.8	24.4	21.4	0.8	23.2	
P/E (x)	43.6	25.1	31.5	863.0	29.6	
EV/EBITDA (x)	19.5	15.7	16.7	30.9	14.3	
Price / Book (x)	3.7	3.0	2.9	2.5	2.3	
RoCE (%)	8.8	9.6	8.4	3.1	7.8	
RoE (%)	8.5	10.7	8.8	0.3	7.7	

Source: Company, ICICI Direct Research

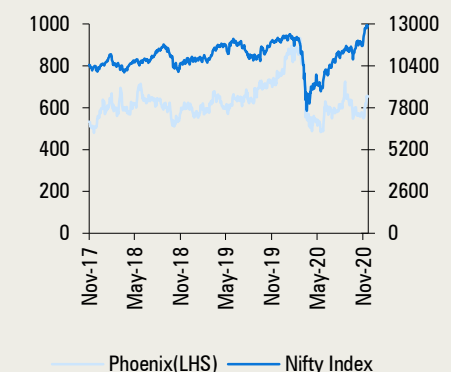


Particulars	Amount (₹ crore)
Market Capitalization	11,833.3
Total Debt	4,573.2
Cash	140.7
EV	16,265.8
52 week H/L (₹)	980 / 466
Equity capital	30.7
Face value	₹ 2

Key Highlights

- GIC will invest by way of a combination of primary infusion and secondary purchase of equity shares for a 26% stake initially at an enterprise value of ~₹ 5600-5700 crore
- Maintain BUY with target price of ₹ 795/share

Price Chart



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Exhibit 1: Valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Value (₹ crore)	Value/ share (₹/ share)
Retail	Leasable area (msf)					
Retail Operational	6.8	12,804.2	3,074.9	9,729.3	7739	451
Retail under construction	3.6	2633	10	2623	1331	78
Retail Total	10.4	15,437	3,085	12,352	9,070	528
Commercial	Leasable area (msf)					
Commercial Operational	1.0	1608	112	1496	1496	87
Commercial under construction	1.8	1297	66	1231	1124	65
Commercial Total	2.8	2,905	178	2,727	2,620	153
Hospitality	No of keys					
Hospitality Total	588	2,713	1,197	1,516	1,111	65
Residential	Saleable area (msf)					
Residential Total	3.7	1,077	-	1,077	850	50
Grand Total	17.0	22,132		17,672	13,652	795
Rounded Off target price						795

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Net Sales	1,981.6	1,941.1	1,194.9	2,083.7
Other Income	85.1	58.5	69.3	72.8
Total revenues	2,066.7	1,999.6	1,264.2	2,156.5
Raw Material Expenses	218.9	195.9	120.6	210.3
Employee Cost	161.5	165.5	113.5	166.7
Other Expenditure	608.0	612.6	469.4	637.1
Total Operating Expenditure	988.4	974.0	703.5	1,014.0
EBITDA	993.2	967.1	491.4	1,069.7
Interest	350.6	347.8	327.8	310.6
Depreciation	204.2	207.6	229.3	260.7
PBT	571.6	478.0	3.5	571.1
Tax	109.9	122.1	0.9	142.8
Reported PAT	421.0	334.7	13.7	399.2
EPS	27.5	21.9	0.8	23.2

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Equity Capital	30.7	30.7	34.3	34.3
Reserves & Surplus	3,443.5	3,667.7	4,754.2	5,176.7
Networth	3,474.1	3,698.4	4,788.5	5,211.0
Total Debt	4,243.5	4,573.2	4,532.6	4,536.7
Other financial liabilities	176.4	203.3	130.9	228.3
Deferred Tax Liability	0.3	2.8	2.8	2.8
Source of Funds	9,118	9,756	10,731	11,317
Gross Block	7,370.4	7,514.8	7,644.6	8,690.9
Less: Accumulated Dep	1,221.5	1,435.3	1,664.6	1,925.4
Net Block	6,148.9	6,079.5	5,980.0	6,765.6
Capital WIP	896.0	1,534.1	2,051.9	1,713.1
Total Fixed Assets	7,044.9	7,613.6	8,031.9	8,478.7
Investments	472.2	428.0	428.0	378.0
Inventories	898.6	816.1	491.0	799.2
Trade Receivables	195.5	201.7	117.9	205.5
Loans & Advances	21.2	9.7	6.0	10.4
Cash & Bank Balances	192.0	140.7	1,121.3	1,096.3
Other Current Assets	285.8	406.4	229.2	399.6
Total Current Assets	1,865.9	1,736.3	2,012.0	2,511.1
Trade Payable	147.7	110.3	67.9	118.5
Provisions	63.0	76.1	43.6	64.5
Other Current Liabilities	787.3	526.9	320.8	559.5
Total Current Liabilities	998.0	713.3	432.3	742.5
Net Current Assets	867.9	1,023.0	1,579.7	1,768.7
Application of Funds	9,118	9,756	10,731	11,317

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Profit after Tax	421.0	334.7	13.7	399.2
Depreciation	204.2	207.6	229.3	260.7
Interest paid	350.6	347.8	327.8	310.6
Cash Flow before wc changes	1,005.6	1,033.4	560.7	1,142.5
Net Increase in Current Assets	(465.7)	7.7	589.9	(570.7)
Net Increase in Current Liabilities	(251.8)	(255.4)	(353.4)	407.5
Net cash flow from op. activities	207.7	663.7	796.3	836.5
Purchase of Fixed Assets	(1,464.5)	(781.9)	(647.6)	(707.5)
(Purchase)/Sale of Investments	(1,234.4)	44.2	-	50.0
Net cash flow from inv. activities	(1,099.2)	(705.7)	(523.8)	(578.2)
Proceeds from Long Term Borrowir	420.5	329.7	(40.6)	4.1
Interest paid	(332.9)	(347.8)	(327.8)	(310.6)
Net cash flow from fin. activities	1,052.7	(15.1)	708.0	(283.2)
Net Cash flow	161.2	(57.1)	980.5	(24.9)
Opening Cash	30.8	192.0	140.7	1,121.3
Closing Cash	192.0	140.7	1,121.3	1,096.3

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
	₹ crore			
₹ crore	FY19	FY20	FY21E	FY22E
Per Share Data				
Reported EPS	27.5	21.9	0.8	23.2
Cash EPS	40.8	35.4	14.2	38.4
BVPS	226.9	241.5	278.9	303.5
Operating Ratios				
EBITDA / Net Sales	50.1	49.8	41.1	51.3
PAT / Net Sales	18.8	16.8	1.1	19.2
Return Ratios				
RoE	10.7	8.8	0.3	7.7
RoCE	9.6	8.4	3.1	7.8
RoIC	11.5	10.8	3.9	10.6
Valuation Ratios				
EV / EBITDA	15.7	16.7	30.9	14.3
P/E	25.1	31.5	863.0	29.6
EV / Net Sales	7.9	8.3	12.7	7.3
Market Cap / Sales	6.0	6.1	9.9	5.7
Price to Book Value	3.0	2.9	2.5	2.3
Turnover Ratios				
Asset turnover	0.2	0.2	0.1	0.2
Gross Block Turnover	0.3	0.2	0.1	0.2
Solvency Ratios				
Net Debt / Equity	1.1	1.2	0.7	0.7
Current Ratio	1.4	2.0	2.0	1.9
Quick Ratio	0.5	0.9	0.8	0.8

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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