

# Phoenix Mills

Estimate changes



TP change



Rating change



Bloomberg	PHNX IN
Equity Shares (m)	153
M.Cap.(INRb)/(USDb)	140.3 / 1.9
52-Week Range (INR)	980 / 466
1, 6, 12 Rel. Per (%)	-4/3/-31
12M Avg Val (INR M)	250

## Financials & Valuations (INR b)

Y/E Mar	2021E	2022E	2023E
Net Sales	11.0	18.5	24.4
EBITDA	5.2	9.4	12.5
EBITDAM %	46.8	51.0	51.4
NP	0.5	2.8	5.0
EPS (INR)	3.4	18.5	32.4
EPS Gr. (%)	-84	446	75
BV/Sh. (INR)	317	332	360
<b>Ratios</b>			
Net D:E	0.8	0.8	0.7
RoE (%)	1.2	5.7	9.4
RoCE (%)	7.9	6.4	8.4
<b>Valuations</b>			
P/E (x)	240.7	44.1	25.2
P/BV (x)	2.6	2.5	2.3
EV/EBITDA (x)	31.6	17.5	13.1
EV/Sales (x)	14.8	8.9	6.7

## Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	45.5	45.6	59.1
DII	17.4	16.3	9.2
FII	33.5	33.9	27.5
Others	3.6	4.3	4.2

FII Includes depository receipts

**CMP: INR 817**
**TP: INR 983(+20%)**
**Buy**

## Retail consumption picking up; outlook positive

- Retail continues to witness a demand recovery, while the same for the Office segment largely remains steady with the recently completed office space seeing increased leasing activity. The Hospitality segment is likely to remain subdued in the short term.
- PHNX remains one of the best proxy plays on India's consumption story in the medium-to-long term. Reiterate **Buy**.

## Consumption trend on a sustained recovery phase

**3QFY21 performance:** Revenue declined 34% YoY (up 57% QoQ) to INR3,378m (v/s our estimate of INR3,695m). EBITDA stood at INR1,588m (v/s our expectation of INR1,849m), down 39% YoY (up 73% QoQ). EBITDA margin contracted 370bp YoY to 47% (v/s our estimate of 50%) on account of higher RM cost (up 430bp YoY at 8.1% of sales). Adjusted PAT fell 29% YoY to INR654 (v/s our expectation of INR520m), largely benefitting from a reversal in the MAT credit balance in a few subsidiaries.

**Segmental performance:** Retail segment declined 31% YoY (up 64% QoQ) to INR2,230m. Sustained recovery in consumption as we gradually return to normalcy has helped achieve sequential improvement in the Retail segment. Commercial declined 6% YoY to INR315m. Hospitality plunged 74% YoY (up ~3x QoQ) to INR278m, impacted by subdued business travel. Residential increased 16% YoY (+26% QoQ) to INR556m, led by robust demand for ready to move in properties.

**Consumption continues to improve:** Recovery in consumption sustained across Retail assets and stood at INR13.8b, which is ~67% of 3QFY20 levels. Jan'21 consumption stands at 87% of Jan'20 levels. Average rental income stood at 63% of 3QFY20 levels, with better recovery in Tier II v/s Tier I cities.

## Highlights from the management commentary

a) Expect 4QFY21 consumption levels in excess of 80% of 4QFY20 levels, supported by a strong revival across retail categories; b) Acquisition of land for developing a mall in Kolkata is in sync with PHNX's long-term strategy of adding 1msf of retail per year beyond FY24.

## Valuation and view

- The Retail segment continues to gain traction, which is only getting stronger as we traverse the path back to normalcy. The Office space largely remains stable with signs of a revival in new leasing activity. Hospitality is likely to see short-term pain on the back of subdued business travel.
- We broadly maintain our estimates for Retail, Office, and Hospitality segments while increasing our FY21E estimates for Residential due to robust demand. We value PHNX's retail assets based on DCF-based NAV approach, assuming a cap/discount rate of 8.5%/13%. Maintain Buy with a SoTP-based TP of INR983 per share.

## Consolidated quarterly earnings model

Y/E March									(INR m)			
	FY20				FY21				FY20	FY21E	3QFY21E	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Gross Sales</b>	<b>6,150</b>	<b>4,151</b>	<b>5,118</b>	<b>3,992</b>	<b>1,347</b>	<b>2,149</b>	<b>3,378</b>	<b>4,076</b>	<b>19,411</b>	<b>10,950</b>	<b>3,695</b>	<b>-9%</b>
YoY Change (%)	48.9	2.6	16.2	-44.8	-78.1	-48.2	-34.0	2.1	-2.0	-43.6	-27.8	
Total Expenditure	3,223	2,043	2,525	1,949	644	1,232	1,790	2,154	9,740	5,821	1,846	
<b>EBITDA</b>	<b>2,927</b>	<b>2,108</b>	<b>2,593</b>	<b>2,043</b>	<b>703</b>	<b>917</b>	<b>1,588</b>	<b>1,922</b>	<b>9,671</b>	<b>5,129</b>	<b>1,849</b>	<b>-14%</b>
Margin (%)	47.6	50.8	50.7	51.2	52.2	42.7	47.0	47.2	49.8	46.8	50.0	-303bps
Depreciation	507	509	514	545	502	541	531	529	2,076	2,103	520	
Interest	871	878	889	840	869	945	857	842	3,478	3,513	920	
Other Income	154	195	133	104	131	144	151	179	585	605	155	
<b>PBT before EO expense</b>	<b>1,703</b>	<b>915</b>	<b>1,323</b>	<b>761</b>	<b>-538</b>	<b>-425</b>	<b>352</b>	<b>730</b>	<b>4,702</b>	<b>119</b>	<b>564</b>	<b>-38%</b>
Extra-Ord. expense	0	-78	0	0	0	0	0	0	-78	0	0	
<b>PBT</b>	<b>1,703</b>	<b>993</b>	<b>1,323</b>	<b>761</b>	<b>-538</b>	<b>-425</b>	<b>352</b>	<b>730</b>	<b>4,780</b>	<b>119</b>	<b>564</b>	
Tax	234	350	358	279	-33	-25	-249	187	1,221	-120	64	
Rate (%)	13.8	35.3	27.0	36.6	6.1	5.9	NM	25.6	25.4	NM	11.3	
MI and P/L of Asso. Cos.	165	-15	46	16	-81	-41	-53	-79	212	-254	-20	
<b>Reported PAT</b>	<b>1,304</b>	<b>658</b>	<b>919</b>	<b>467</b>	<b>-424</b>	<b>-359</b>	<b>654</b>	<b>622</b>	<b>3,347</b>	<b>493</b>	<b>520</b>	
<b>Adj. PAT</b>	<b>1,304</b>	<b>608</b>	<b>919</b>	<b>467</b>	<b>-424</b>	<b>-359</b>	<b>654</b>	<b>622</b>	<b>3,297</b>	<b>493</b>	<b>520</b>	<b>26%</b>
YoY Change (%)	118.3	-2.1	29.8	-75.1	NM	NM	-28.8	33.2	-13.7	-85.0	-43.4	
Margin (%)	21.2	14.6	17.9	11.7	-31.5	-16.7	19.4	15.3	17.0	4.5	14.1	

E: MOFSL estimates



## Highlights from the management commentary

**Consumption trend:** There is sustained improvement in consumption across categories and retail assets. The trend is likely to improve further, supported by a revival in Family Entertainment Centers (FECs), F&B, and Multiplexes. The discounted rentals for most of its retail partners will likely end by FY21-end. The rental structure will return back to pre-COVID levels from FY22.

**Kolkata Mall acquisition:** The newly planned Kolkata mall is in sync with the company's long-term strategy of adding 1msf of retail space per year beyond FY24. The total cost of construction (including land cost) is ~INR8.85b and will likely be completed by FY25. Expected monthly rental for the mall will be in excess of INR150/sf.

**Update on Fountainhead:** a) Tower 1 is 95% leased and operational; b) OC received for Tower 2 in Oct'20 and is 20% leased (0.05msf/0.25msf) at an average monthly rental of INR71/sf, and c) Tower 3 is nearing completion and is expected to receive OC at the beginning of 1QFY21. Tenant interest is moderate for the Fountainhead project.

**Digital initiatives:** Phoenix Enhance program (digital initiative) launched in Palladium Chennai saw a good response and has been rolled out at Palladium Mumbai and PMC Bengaluru. In Jan'21, 6% of total consumption at these malls was captured through this app.

■ **Debt** down to INR44.1b from INR45b at the end of 2QFY21, with the average cost of borrowing at 8.46% in 3Q (down 40bp from 8.88% in 2Q). Cost of debt in Jan'21 further fell to 8.31%.

## Valuation and view

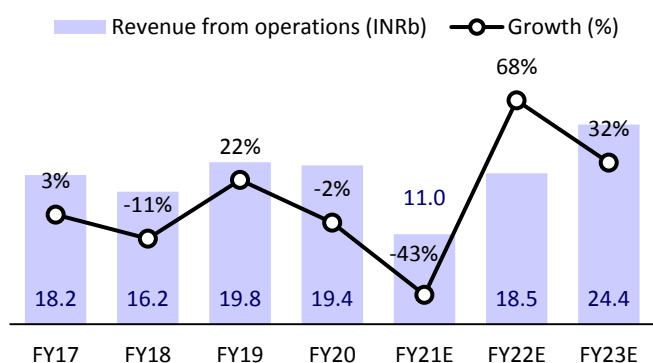
### Best proxy to play India's consumption story

Consumption sees a sharp improvement as we traverse the path back to normalcy. It is likely to get better as major footfall driving segments like FECs, F&B, and Multiplexes start witnessing normal occupancies. The performance of the Office segment largely remains stable. New leasing activity at the recently completed

Fountain Head Tower 2 saw a good response, with 20% space already leased. Revival in the Residential segment, with rising demand for the Ready to Move-in properties, led to robust performance for PHNX’s projects (One Bangalore West and Kesakku). The Hospitality segment is still not out of the woods and is likely to face the brunt of the COVID-19 pandemic till the time business travel revives. PHNX remains on track to complete its under-construction leasing assets (four retail malls and one commercial asset) and has struck a land deal to launch a greenfield retail mall in Kolkata (1msf of leasable area) as part of its long term strategy to add 1msf of retail space every year beyond FY24. The company provides a unique way to play India’s retail growth story due to its: a) strong track record of execution and operations, b) scalability, c) focused strategy to tap high potential markets, and d) robust cash generation. We broadly maintain our estimate for Retail, Office, and Hospitality segments while raising our FY21E estimate for Residential due to robust demand. We value PHNX’s retail assets based on DCF-based NAV approach, assuming a cap/discount rate of 8.5%/13%. Maintain Buy with a SoTP-based TP of INR983 per share.

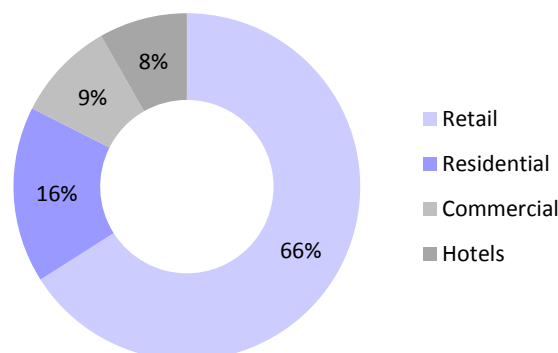
## Story in charts

**Exhibit 1: Expect revenue CAGR of 8% over FY20-22E**



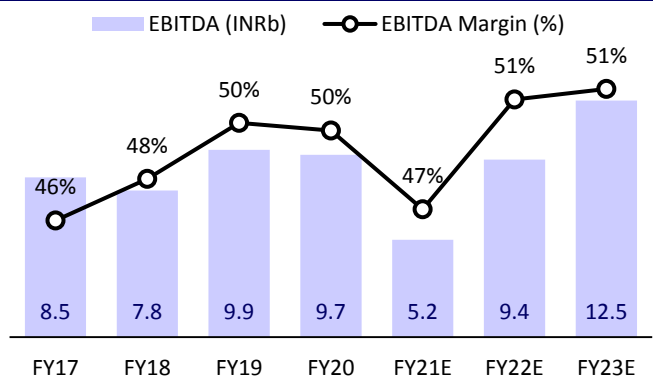
Source: Company, MOFSL

**Exhibit 2: Revenue mix (3QFY21)**



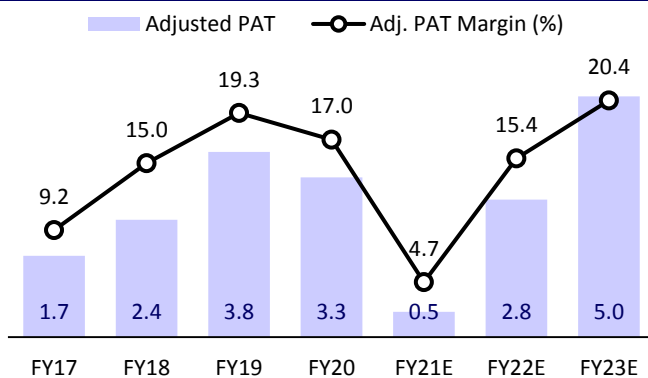
Source: Company, MOFSL

**Exhibit 3: EBITDA and EBITDA margin trend**



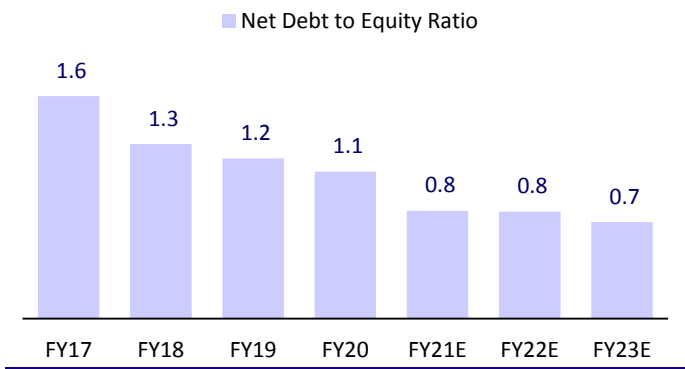
Source: Company, MOFSL

**Exhibit 4: Expect adjusted PAT CAGR of 15% over FY20-23E**



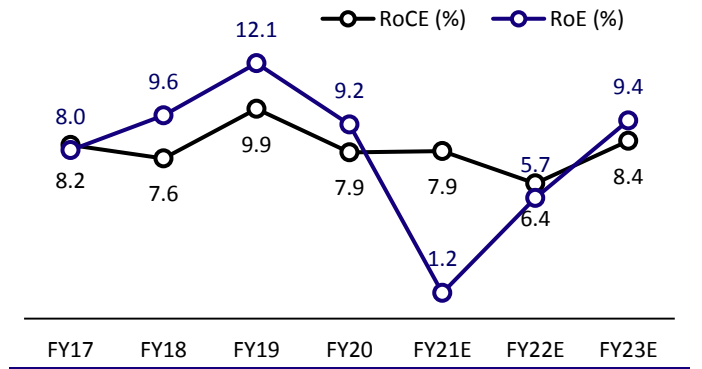
Source: Company, MOFSL

**Exhibit 5: Debt-to-equity on a declining trend**



Source: Company, MOFSL

**Exhibit 6: RoE/RoCE trend**



Source: Company, MOFSL

## Financials and valuations

### Consolidated Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Income from Operations</b>	<b>18,246</b>	<b>16,198</b>	<b>19,816</b>	<b>19,411</b>	<b>11,007</b>	<b>18,464</b>	<b>24,415</b>
Change (%)	2.5	-11.2	22.3	-2.0	-43.3	67.7	32.2
<b>Total Expenditure</b>	<b>9,777</b>	<b>8,424</b>	<b>9,884</b>	<b>9,740</b>	<b>5,852</b>	<b>9,048</b>	<b>11,866</b>
% of Sales	53.6	52.0	49.9	50.2	53.2	49.0	48.6
<b>EBITDA</b>	<b>8,469</b>	<b>7,774</b>	<b>9,932</b>	<b>9,671</b>	<b>5,156</b>	<b>9,417</b>	<b>12,549</b>
Margin (%)	46.4	48.0	50.1	49.8	46.8	51.0	51.4
Depreciation	1,953	1,983	2,042	2,076	2,103	2,196	2,458
<b>EBIT</b>	<b>6,516</b>	<b>5,791</b>	<b>7,889</b>	<b>7,595</b>	<b>3,053</b>	<b>7,221</b>	<b>10,092</b>
Int. and Finance Charges	4,230	3,476	3,506	3,478	3,513	3,639	3,598
Other Income	472	556	851	585	605	636	668
<b>PBT bef. EO Exp.</b>	<b>2,758</b>	<b>2,871</b>	<b>5,235</b>	<b>4,702</b>	<b>146</b>	<b>4,218</b>	<b>7,162</b>
EO Items	0	0	481	78	0	0	0
<b>PBT after EO Exp.</b>	<b>2,758</b>	<b>2,871</b>	<b>5,716</b>	<b>4,780</b>	<b>146</b>	<b>4,218</b>	<b>7,162</b>
Total Tax	858	758	1,099	1,221	-120	1,076	1,826
Tax Rate (%)	31.1	26.4	19.2	25.4	-82.3	25.5	25.5
Minority Interest	221	-308	407	212	-254	305	365
<b>Reported PAT</b>	<b>1,679</b>	<b>2,422</b>	<b>4,210</b>	<b>3,347</b>	<b>520</b>	<b>2,838</b>	<b>4,970</b>
<b>Adjusted PAT</b>	<b>1,679</b>	<b>2,422</b>	<b>3,822</b>	<b>3,297</b>	<b>520</b>	<b>2,838</b>	<b>4,970</b>
Change (%)	12.8	44.2	57.8	-13.7	-84.2	446.2	75.1
Margin (%)	9.2	15.0	19.3	17.0	4.7	15.4	20.4

### Consolidated Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	306	306	307	307	343	343	343
Total Reserves	21,566	28,213	34,435	36,777	48,260	50,544	54,877
<b>Net Worth</b>	<b>21,872</b>	<b>28,519</b>	<b>34,741</b>	<b>37,084</b>	<b>48,603</b>	<b>50,888</b>	<b>55,221</b>
Minority Interest	2,797	4,661	12,233	12,788	12,788	12,788	12,788
Total Loans	36,255	36,665	42,437	41,075	41,575	42,075	42,575
Deferred Tax Liabilities	-1,252	-1,392	-1,387	-585	-585	-585	-585
<b>Capital Employed</b>	<b>59,672</b>	<b>68,453</b>	<b>88,025</b>	<b>90,362</b>	<b>1,02,382</b>	<b>1,05,166</b>	<b>1,09,999</b>
Gross Block	50,171	63,318	73,788	75,168	76,668	80,168	83,668
Less: Accum. Deprn.	8,139	10,356	12,277	14,353	16,456	18,652	21,109
<b>Net Fixed Assets</b>	<b>42,031</b>	<b>52,962</b>	<b>61,511</b>	<b>60,815</b>	<b>60,212</b>	<b>61,516</b>	<b>62,559</b>
Goodwill on Consolidation	3,341	3,713	3,713	3,711	3,711	3,711	3,711
Capital WIP	3,285	5,025	8,963	15,343	18,343	22,343	26,343
<b>Total Investments</b>	<b>4,096</b>	<b>8,290</b>	<b>7,450</b>	<b>5,897</b>	<b>15,897</b>	<b>15,897</b>	<b>15,897</b>
<b>Curr. Assets, Loans and Adv.</b>	<b>16,449</b>	<b>13,589</b>	<b>18,133</b>	<b>19,096</b>	<b>13,148</b>	<b>17,512</b>	<b>23,608</b>
Inventory	9,455	6,615	8,987	8,161	4,903	7,581	9,942
Account Receivables	1,470	1,292	1,955	2,017	1,144	1,919	2,537
Cash and Bank Balance	812	406	1,920	1,407	3,469	2,473	3,804
Loans and Advances	4,711	5,276	5,271	7,511	3,632	5,539	7,325
<b>Curr. Liability and Prov.</b>	<b>9,529</b>	<b>15,126</b>	<b>11,744</b>	<b>14,499</b>	<b>8,929</b>	<b>15,813</b>	<b>22,118</b>
Account Payables	1,254	6,584	1,700	1,117	671	1,038	1,361
Other Current Liabilities	7,431	7,498	9,394	12,621	7,707	13,852	19,537
Provisions	843	1,045	651	761	550	923	1,221
<b>Net Current Assets</b>	<b>6,920</b>	<b>-1,538</b>	<b>6,388</b>	<b>4,597</b>	<b>4,219</b>	<b>1,699</b>	<b>1,490</b>
<b>Appl. of Funds</b>	<b>59,672</b>	<b>68,453</b>	<b>88,025</b>	<b>90,362</b>	<b>1,02,382</b>	<b>1,05,166</b>	<b>1,09,999</b>

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>10.9</b>	<b>15.8</b>	<b>24.9</b>	<b>21.5</b>	<b>3.4</b>	<b>18.5</b>	<b>32.4</b>
Cash EPS	23.7	28.7	38.2	35.0	17.1	32.8	48.4
BV/Share	142.5	185.8	226.4	241.6	316.7	331.6	359.8
DPS	0.4	2.4	2.6	3.0	0.0	3.0	3.5
Payout (%)	4.9	18.3	11.4	16.5	0.0	19.5	12.8
<b>Valuation (x)</b>							
P/E	74.5	51.6	32.7	37.9	240.7	44.1	25.2
Cash P/E	34.4	28.4	21.3	23.3	47.7	24.8	16.8
P/BV	5.7	4.4	3.6	3.4	2.6	2.5	2.3
EV/Sales	8.8	10.0	8.4	8.5	14.8	8.9	6.7
EV/EBITDA	19.0	20.8	16.7	17.0	31.6	17.5	13.1
Dividend Yield (%)	0.1	0.3	0.3	0.4	0.0	0.4	0.4
<b>Return Ratios (%)</b>							
RoE	8.0	9.6	12.1	9.2	1.2	5.7	9.4
RoCE	8.2	7.6	9.9	7.9	7.9	6.4	8.4
RoIC	8.2	8.0	10.2	8.2	8.4	8.3	11.7
<b>Working Capital Ratios</b>							
Asset Turnover (x)	0.3	0.2	0.2	0.2	0.1	0.2	0.2
Inventory (Days)	189	149	166	153	163	150	149
Debtor (Days)	29	29	36	38	38	38	38
Creditor (Days)	25	148	31	21	22	21	20
<b>Leverage Ratio (x)</b>							
Interest Coverage Ratio	1.5	1.7	2.3	2.2	0.9	2.0	2.8
Net Debt/Equity	1.6	1.3	1.2	1.1	0.8	0.8	0.7

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	2,758	2,874	5,716	4,702	146	4,218	7,162
Depreciation	1,953	1,983	2,042	2,076	2,103	2,196	2,458
Interest and Finance Charges	3,909	3,309	3,134	2,893	2,907	3,003	2,930
Direct Taxes Paid	-438	-208	-804	-1,221	120	-1,076	-1,826
(Inc.)/Dec. in WC	5,853	7,417	-7,175	1,279	2,440	1,524	1,541
<b>CF from Operations</b>	<b>14,035</b>	<b>15,374</b>	<b>2,913</b>	<b>9,729</b>	<b>7,715</b>	<b>9,866</b>	<b>12,264</b>
Others	102	-232	-836	0	0	0	0
<b>CF from Operating incl. EO</b>	<b>14,138</b>	<b>15,142</b>	<b>2,077</b>	<b>9,729</b>	<b>7,715</b>	<b>9,866</b>	<b>12,264</b>
(Inc.)/Dec. in FA	-1,847	-15,013	-14,606	-7,758	-4,500	-7,500	-7,500
<b>Free Cash Flow</b>	<b>12,291</b>	<b>129</b>	<b>-12,529</b>	<b>1,971</b>	<b>3,215</b>	<b>2,366</b>	<b>4,764</b>
(Pur.)/Sale of Investments	-2,429	-3,412	1,508	1,553	-10,000	0	0
Others	349	103	2,009	586	605	636	668
<b>CF from Investments</b>	<b>-3,927</b>	<b>-18,322</b>	<b>-11,090</b>	<b>-5,619</b>	<b>-13,895</b>	<b>-6,864</b>	<b>-6,832</b>
Issue of Shares	22	25	49	0	11,000	0	0
Inc./(Dec.) in Debt	-6,647	410	5,301	-1,362	500	500	500
Interest Paid	-4,321	-3,516	-3,329	-3,478	-3,513	-3,639	-3,598
Dividend Paid	-83	-442	-480	-554	0	-554	-637
Others	0	6,298	8,986	770	254	-305	-365
<b>CF from Fin. Activity</b>	<b>-11,029</b>	<b>2,774</b>	<b>10,527</b>	<b>-4,623</b>	<b>8,241</b>	<b>-3,997</b>	<b>-4,100</b>
<b>Inc./Dec. in Cash</b>	<b>-818</b>	<b>-406</b>	<b>1,514</b>	<b>-513</b>	<b>2,062</b>	<b>-996</b>	<b>1,331</b>
Opening Balance	1,630	812	406	1,920	1,407	3,469	2,473
<b>Closing Balance</b>	<b>812</b>	<b>406</b>	<b>1,920</b>	<b>1,407</b>	<b>3,469</b>	<b>2,473</b>	<b>3,804</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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