

Company update and
target price revision

Real Estate

Target price: Rs925

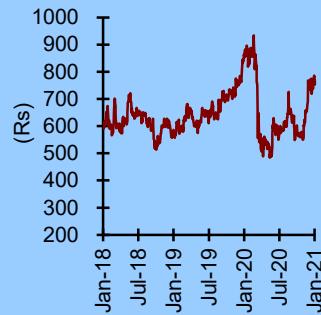
Target price revision
Rs925 from Rs804

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	59.1	59.1	45.6
Institutional investors	36.6	37.1	50.2
MFs and other	9.9	10.2	14.9
FIs/Banks/Ins	0.1	0.6	0.8
FII	26.6	26.3	34.5
Others	4.3	3.8	4.2

Source: NSE

Price chart



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INDIA

The Phoenix Mills

BUY
Maintain
Rs790

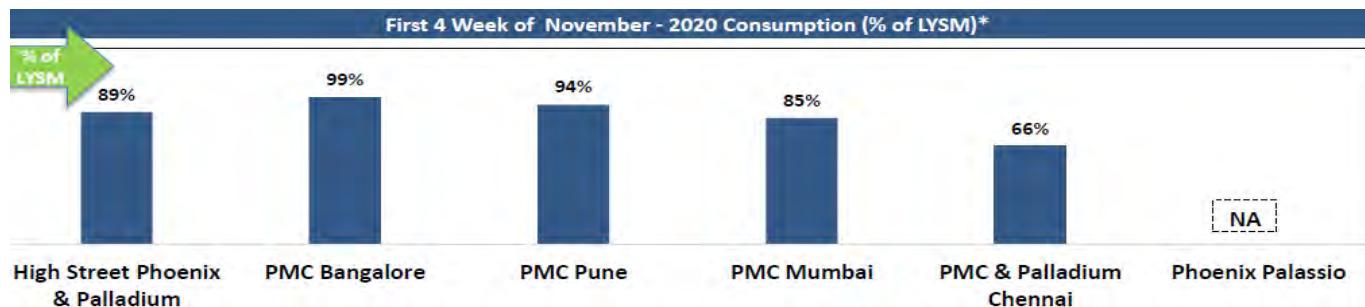
Festive season ushers in consumption revival

The Phoenix Mills (PHNX) has informed exchanges that Q3FY21 mall consumption of Rs13.7bn was at 66% of previous year levels and up 192% QoQ. Consumption in Dec-20 was ~Rs5bn and at the same level as Nov-20 and at 70% of Dec-19 levels. Retail rental collections (including CAMs) in Q3FY21 were also healthy at Rs2.6bn (Rs3.9bn for 9MFY21). With higher than expected consumption across malls, we now expect a lower like-to-like FY21E rental income loss of 45% vs. 50% earlier. We expect consumption to stabilise heading into FY22E resulting in PHNX being able to revert to pre-Covid minimum guarantee rentals. We have built in a strong recovery with FY22E rental income of Rs11.4bn vs. Rs10.2bn in FY20. We retain our **BUY** rating with a revised Mar-22 SoTP based target price of Rs925/share (earlier Rs804) assuming lower cap rate of 7% (8% earlier).

- ▶ **Festive season sees surge in consumption:** While Q2FY21 mall consumption was at 40-55% of previous year levels, Q3FY21 consumption of Rs13.7bn was at 66% of previous year levels and up 192% QoQ. Consumption in Dec-20 was ~Rs5bn and at the same level as Nov-20 and at 70% of Dec-19 levels driven by increase in mall operating hours, resumption of F&B and gaming zones/multiplexes. Retail rental collections (including CAMs) in Q3FY21 were also healthy at Rs2.6bn (Rs3.9bn for 9MFY21). We now build in a lower rental income loss of 45% or Rs4.5bn in FY21E vs. 50% earlier and expect mall rentals to revert back to 90% minimum guarantee from Q1FY22 as consumption stabilises.
- ▶ **Estimated rental income CAGR of 14% over FY20-25E:** At a portfolio level, PHNX will have ~11msf operational mall space by FY23-24E (6.9msf currently operational including Palassio, Lucknow). After accounting for COVID-19 induced revenue loss of Rs4.5bn in FY21, we expect PHNX to achieve a 14% rental income CAGR (ex-CAM) at a portfolio level over FY20-25E which may result in PHNX clocking Rs19.5bn of rental income in FY25E vs. ~Rs10bn in FY20. Of the Rs19.5bn of estimated gross rental income in FY25E, PHNX share is ~75% or Rs14.7bn.
- ▶ **Potential fund infusion may usher in growth:** The company has recently signed a non-binding term sheet with GIC Private Equity (PE) for the formation of a retail-led mixed-use platform. The assets include PHNX's Mumbai (Kurla) and Pune malls and Mumbai (Kurla) offices having a total leasable area of 3.36msf (2.33msf of malls and 1.03msf of offices) that generated FY20 NOI of Rs3.7bn. The indicative pre-money EV for these assets is Rs56-57bn or an equity value of Rs40-41bn (debt of Rs16bn as of Mar-20). Subject to the deal going through, GIC PE may invest between Rs10-13bn in PHNX's SPVs which may further strengthen PHNX's balance sheet as it has estimated cash reserves of Rs16bn as of Dec-20.

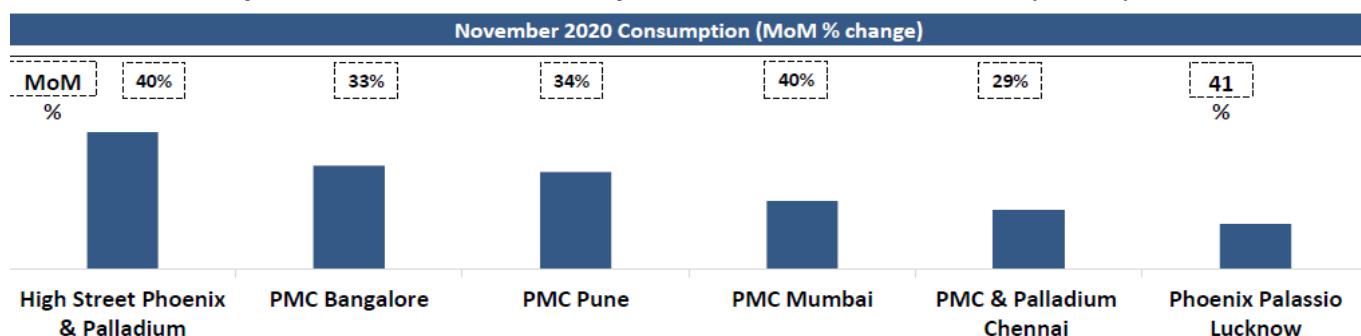
Market Cap	Rs136bn/US\$1.9bn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	PHOE.BO/PHNX IN	Revenue (Rs bn)	19.4	11.9	19.2	22.1
Shares Outstanding (mn)	171.8	Rec. Net Income (Rs bn)	3.3	1.0	2.9	4.4
52-week Range (Rs)	934/484	EPS (Rs)	21.9	5.7	17.2	25.9
Free Float (%)	54.4	% Chg YoY	(20.5)	(74.2)	204.0	50.9
FII (%)	34.5	P/E (x)	36.1	139.8	46.0	30.5
Daily Volume (US\$/'000)	4,748	P/B (x)	3.3	2.8	2.7	2.5
Absolute Return 3m (%)	36.6	EV/E (x)	17.1	26.0	17.4	13.9
Absolute Return 12m (%)	(7.3)	Dividend yield (%)	0.5	0.5	0.5	0.5
Sensex Return 3m (%)	21.7	RoCE (%)	9.5	4.9	7.6	9.4
Sensex Return 12m (%)	21.0	RoE (%)	8.4	1.5	5.2	7.7

Chart 1: Consumption in first four weeks of November 2020 at 87% of same period last year (Rs mn)



Source: Company data, I-Sec research, *LYSM = Last Year Same Month

Chart 2: Consumption in November 2020 is up 36% MoM over October 2020 (Rs mn)

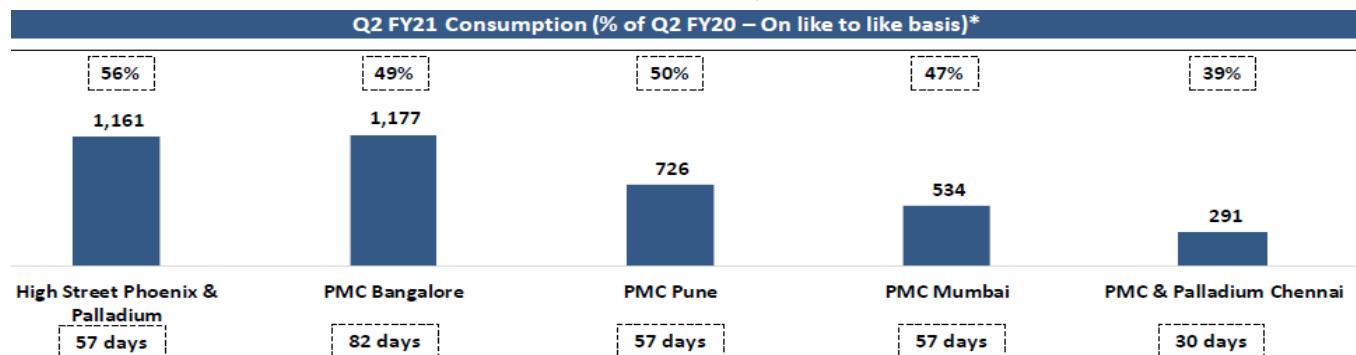


Source: Company data, I-Sec research

Table 1: 93% of total area across malls was operational in November 2020

Month	Total Area (msf)	Permissible Area (msf)	Area Operational (msf)	Permissible Area Operational (%)
June 2020	5.96	1.35	1.13	84.1%
July 2020	6.90	1.74	1.54	88.8%
August 2020	6.90	4.10	3.66	89.0%
September 2020	6.90	4.92	4.58	93.1%
October 2020	6.90	5.46	4.91	89.8%
November 2020*	6.90	6.05	5.61	92.8%

Source: Company data, I-Sec research, *As on 28th November, 2020

Chart 3: Q2FY21 consumption was 40-55% of Q2FY20 figures on like-to-like basis (Rs mn)**Table 2: Asset wise quarterly operating metrics**

Rs mn	Q2FY21	Q2FY20	YoY	H1FY21	H1FY20	YoY
Rental Income (ex-CAM)						
High Street Phoenix (HSP)	334	879	(62.0)	678	1,760	(61.5)
Bengaluru Market City	128	360	(64.4)	248	719	(65.5)
Pune Market City	136	427	(68.1)	261	859	(69.6)
Kurla Market City	87	320	(72.8)	174	644	(73.0)
Chennai Market City*	74	475	(84.4)	208	942	(77.9)
Lucknow Pallasio	37	-	NM	37	-	NM
Phoenix United, Bareilly	28	55	(49.1)	40	111	(64.0)
Phoenix United, Lucknow	37	79	(53.2)	59	156	(62.2)
Total	861	2,595	(66.8)	1,705	5,191	(67.2)
Asset EBITDA (including CAM)						
High Street Phoenix (HSP)	236	767	(69.2)	639	1,547	(58.7)
Bengaluru Market City	148	373	(60.3)	283	758	(62.7)
Pune Market City	138	436	(68.3)	256	876	(70.8)
Kurla Market City	96	332	(71.1)	174	654	(73.4)
Chennai Market City*	64	440	(85.5)	189	936	(79.8)
Lucknow Pallasio	37	-	NM	37	-	NM
Phoenix United, Bareilly	33	47	(29.8)	50	107	(53.3)
Phoenix United, Lucknow	25	74	(66.2)	52	146	(64.4)
Total	777	2,469	(68.5)	1,680	5,024	(66.6)

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

Valuations & views

- We like PHNX because: (1) it has a strong brand recall and 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 7% for rental assets.
- **We retain our BUY rating with a revised target price of Rs925/share (earlier Rs804) as we factor in lower like-to-like rental income loss of 45% in FY21E (vs. 50% earlier) and a lower cap rate of 7% (8% earlier).** Our NAV factors in a one-time like-for-like loss of Rs4.5bn of rental income in FY21E 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 in the medium term and online retail channels.

Table 3: Key historical numbers and assumptions (including new assets)

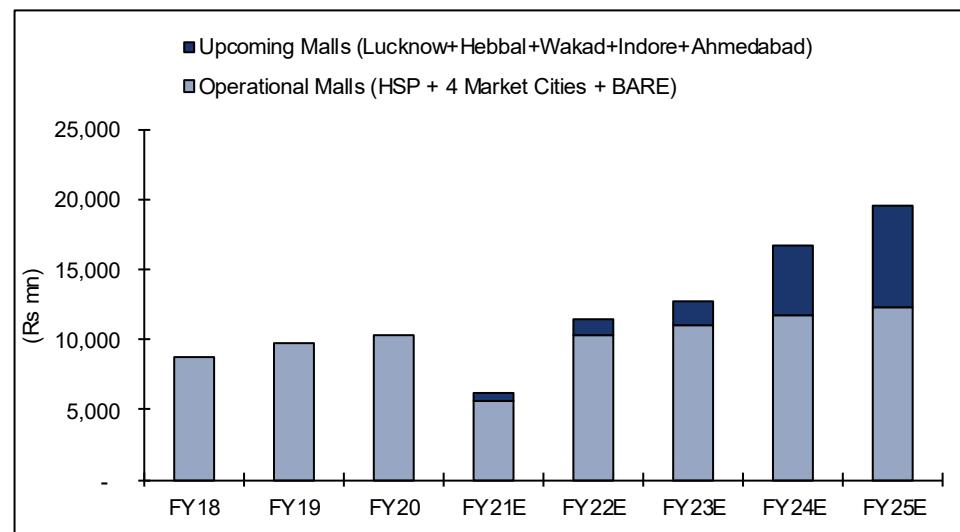
Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Rental properties							
Net rental income - 100% share	7,935	8,693	9,762	10,275	6,160	11,388	12,699
Net rental income - PHNX share	6,799	7,405	8,211	8,643	5,292	9,779	10,781

Source: Company data, I-Sec research estimates

Table 4: SoTP valuation

Project	PHNX FY22E GAV (Rs mn)	Rs/share	% of GAV
High Street Phoenix	50,319	294	26.9
Kurla (Offbeat Developers)	18,970	111	10.1
Pune (Vamona Developers)	23,356	136	12.5
Bengaluru East (Island Star) – for 51% stake	12,226	71	6.5
Pune Wakad (CPPIB-Island Star) – for 51% stake	3,582	21	1.9
Bengaluru Hebbal (CPPIB-Island Star) – for 51% stake	8,598	50	4.6
Ahmedabad Market City (BSafal) – for 50% stake	2,463	16	1.5
Indore Market City (CPPIB-Island Star) – for 51% stake	2,754	14	1.3
Lucknow – Gomti Nagar Market City – for 100% stake	15,934	93	8.5
Bengaluru West (Palladium/Platinum)	7,840	46	4.2
Chennai (Classic Mall) – for 50% stake	13,371	78	7.1
St. Regis Hotel (Pallazio)	11,536	67	6.2
BARE (Lucknow & Bareilly)	7,666	45	4.1
Others	8,625	50	4.6
Total GAV	187,239	980	100.0
Less: FY22E Net Debt (PHNX economic share)	28,876	169	
FY22E NAV	158,364	925	

Source: I-Sec research estimates

Chart 4: Rental income CAGR of 14% over FY20-25E

Financial Summary (consolidated)

Table 5: Earnings statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Sales	19,411	11,929	19,216	22,089
Operating Expenses	9,740	5,419	9,252	9,757
EBITDA	9,671	6,510	9,964	12,332
% margins	50%	55%	52%	56%
Depreciation & Amortisation	2,076	2,467	2,620	2,738
Interest expenses	3,478	3,769	4,048	4,024
Other Income	585	702	737	774
Exceptional items	78	-	-	-
PBT	4,624	976	4,033	6,343
Less: Taxes	1,221	195	807	1,269
PAT before				
Minority/Associate	3,403	781	3,227	5,075
Minority/Associate share	(56)	186	(286)	(637)
Net Income (Reported)	3,347	967	2,941	4,437

Source: Company data I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	19,117	31,891	31,340	33,995
of which cash & cash eqv.	1,407	14,530	14,230	17,135
Total Current Liabilities & Provisions	9,871	8,992	8,472	10,977
Net Current Assets	9,246	22,899	22,868	23,017
Goodwill/Investments	9,608	9,608	11,608	13,608
Net Fixed Assets	60,795	62,212	61,900	62,857
Capital WIP	15,341	14,769	19,996	22,642
Total Assets	94,990	1,09,487	1,16,372	1,22,123
Liabilities				
Borrowings	45,731	48,731	52,731	53,731
Equity Share Capital	307	343	343	343
Reserves & Surplus*	36,777	48,081	50,321	54,057
Net Worth	37,083	48,424	50,664	54,400
Minority Interest	12,788	12,944	13,589	14,604
Deferred Taxes	(612)	(612)	(612)	(612)
Total Liabilities	94,990	1,09,487	1,16,372	1,22,123

Source: Company data I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT	4,624	976	4,033	6,343
Depreciation	2,076	2,467	2,620	2,738
Non-Cash Adjustments	(914)	(913)	(912)	(911)
Working Capital Changes	(985)	(529)	(270)	2,755
Taxes Paid	(1,221)	(195)	(807)	(1,269)
Operating Cashflow	3,581	1,805	4,665	9,657
Capital Commitments	(7,801)	(3,311)	(7,536)	(6,340)
Free Cashflow	(4,220)	(1,506)	(2,871)	3,317
Other investing cashflow	-	-	(2,000)	(2,000)
Cashflow from Investing Activities				
Issue of Share Capital*	63	11,000	-	-
Inc (Dec) in Borrowings	878	3,000	4,000	1,000
Dividend paid	(555)	(627)	(701)	(701)
Cashflow from Financing activities				
Chg. in Cash & Bank balances	387	13,373	3,299	299
	(3,833)	11,868	(1,572)	1,616

Source: Company data I-Sec research, *QIP issue in FY21

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	21.9	5.7	17.2	25.9
Cash EPS	35.4	20.1	32.5	41.9
Dividend per share (DPS)	3.7	4.1	4.1	4.1
Book Value per share (BV)	242.4	282.9	296.0	317.8
Growth (%)				
Net Sales	(2.0)	(38.5)	61.1	15.0
EBITDA	(2.6)	(32.7)	53.1	23.8
PAT	(20.5)	(71.1)	204.0	50.9
Valuation Ratios (x)				
P/E	36.1	139.8	46.0	30.5
P/BV	3.3	2.8	2.7	2.5
EV / EBITDA	17.1	26.0	17.4	13.9
Dividend Yield	0.5	0.5	0.5	0.5
Operating Ratios				
Debt/EBITDA (x)	4.7	7.5	5.3	4.4
Net D/E	1.2	0.7	0.8	0.7
Return Ratios (%)				
RoE	8.4	1.5	5.2	7.7
RoCE	9.5	4.9	7.6	9.4
EBITDA Margins	49.8	54.6	51.9	55.8
Net Income Margins	17.2	8.1	15.3	20.1

Source: Company data I-Sec research

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