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Company update

Real Estate

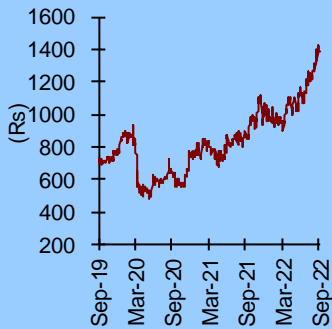
Target price: Rs1,645

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	47.3	47.3	47.3
Institutional investors	48.4	48.2	48.3
MFs and other	16.8	16.3	15.8
FIs/Banks/Ins	0.4	0.5	0.3
FIIIs	31.2	31.4	32.2
Others	4.3	4.5	4.4

Source: NSE

Price chart



INDIA

The Phoenix Mills

BUY

Maintained

Rs1,386

Strong consumption growth sustains in Aug'22

The Phoenix Mills (PHNX) saw Aug'22 like-to-like (LTL) consumption across malls at Rs6.7bn or 114% of Aug'19 levels and mirrors the Jul'22 LTL consumption growth which was at 120% of Jul'19 levels on the back of retailers' End of Season sale. In Q1FY23 (Apr-Jun'22), LTL consumption across malls stood at Rs19.8bn or 111% of Apr-Jun'19 (Q1FY20) levels which translated into Q1FY23 retail LTL EBITDA of Rs2.9bn or 115% of Q1FY20 levels. Owing to continued consumption strength, we model for FY23E rental income of Rs13.7bn (Rs12.2bn on LTL basis vs. Rs10.3bn in FY20). With Indore and Ahmedabad malls to open in FY23E and Pune (Wakad) and Bengaluru (Hebbal) in FY24E, we expect 17% rental income CAGR over FY20-25E. We reiterate our BUY rating with an unchanged target price of Rs1,645/share based on 20% premium to our Mar'23E NAV of Rs1,371/share which includes increase in Palladium, Mumbai leasable area and considers growth opportunities from new office capex and new malls (including Surat). Key risks to our call are a fresh Covid wave impacting mall consumption and fall in mall occupancies and rentals.

- **Consumption recovery firmly on track:** In Q3FY22, LTL consumption across PHNX's malls stood at Rs18.4bn or 89% of Q3FY20 levels. In Jan'22, LTL consumption stood at 70% of Jan'20 levels in spite of Omicron disruption in mall operations for the month, and in Feb'22, consumption levels were back to 94% of pre-Covid levels. In Mar'22, consumption across malls stood at Rs5.6bn or 105% of Mar'19 levels on LTL basis (Mar'20 saw mall shutdowns hence not comparable) while Q4FY22 consumption of Rs14.8bn stood at 91% of Q4FY19 levels on LTL basis. **This momentum carried forward into Q1FY23 (Apr-Jun'22) with LTL consumption across malls at Rs19.8bn or 111% of Apr-Jun'19 (Q1FY20) levels) and continued in Jul'22 where LTL consumption stood at 120% of Jul'19 levels aided by retailers' End of Season sale. In Aug'22, overall consumption across malls stood at Rs7.4bn while LTL consumption stood at Rs6.7bn or 114% of Aug'19 levels.**
- **Consumption growth has started flowing into rentals:** With a strong bounce back in consumption across categories in Q1FY23, retail rental collections (including CAM) increased by 10% QoQ to Rs5.3bn and Phoenix Palladium saw addition of 0.15msf of new Gross Leasable Area in Q1FY23.
- **Estimated rental income CAGR of 17% over FY20-25E:** PHNX will have ~13msf operational mall space by FY26E (6.9msf currently operational). We expect PHNX to achieve a 17% rental income CAGR (ex-new Kolkata asset) over FY20-25E, resulting in Rs22.4bn of rental income in FY25E vs. ~Rs10.3bn in FY20. Of the Rs22.4bn of gross rental income in FY25E, PHNX's share is ~77% or Rs17.3bn.

Market Cap	Rs248bn/US\$3.1bn	Year to Mar	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	PHOE.BO / PHNX IN	Revenue (Rs bn)	10.7	14.9	27.1	33.6
Shares Outstanding (mn)	178.6	Rec. Net Income (Rs bn)	0.6	2.4	9.8	8.8
52-week Range (Rs)	1423/843	EPS (Rs)	3.4	13.9	57.5	51.4
Free Float (%)	52.7	% Chg YoY	(84.6)	312.4	314.9	(10.6)
FII (%)	32.2	P/E (x)	413.4	100.2	24.2	27.0
Daily Volume (US\$/'000)	3,749	P/B (x)	4.9	3.6	3.2	2.9
Absolute Return 3m (%)	23.8	EV/E (x)	56.2	37.6	17.2	13.2
Absolute Return 12m (%)	59.6	Dividend yield (%)	0.3	0.2	0.3	0.3
Sensex Return 3m (%)	7.6	RoCE (%)	4.0	5.9	10.4	11.8
Sensex Return 12m (%)	2.6	RoE (%)	1.0	3.8	13.7	10.8

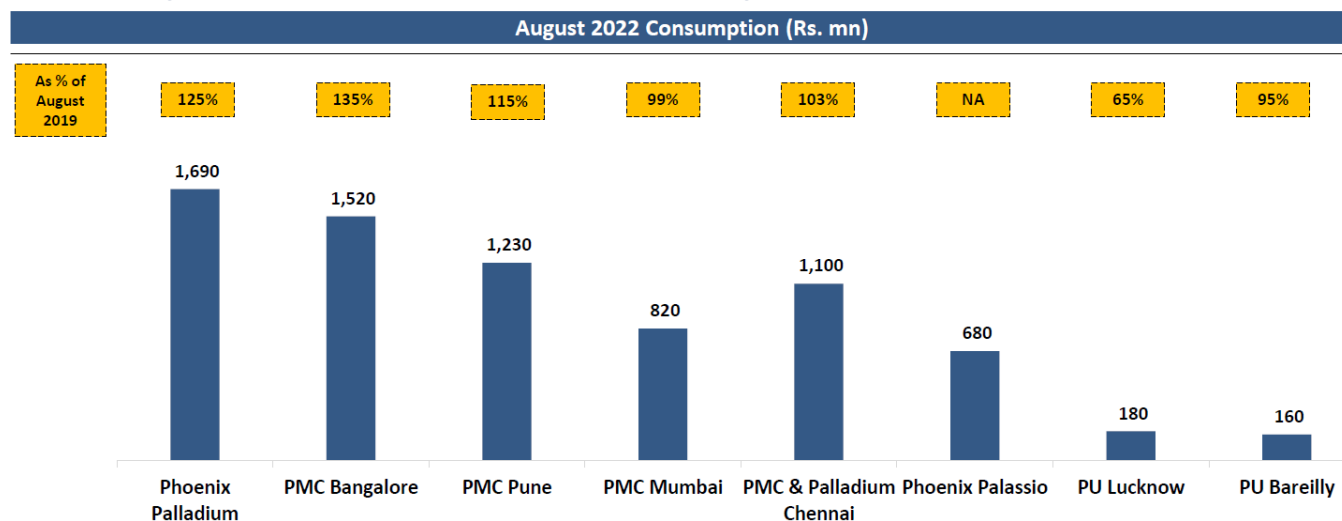
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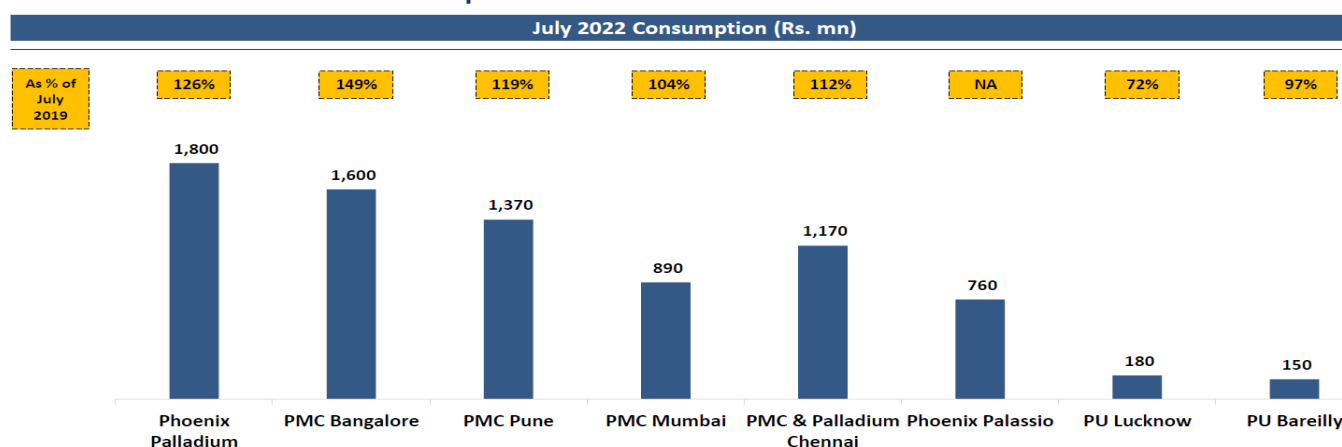
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Chart 1: Aug'22 like-to-like consumption at 114% of Aug'19 levels



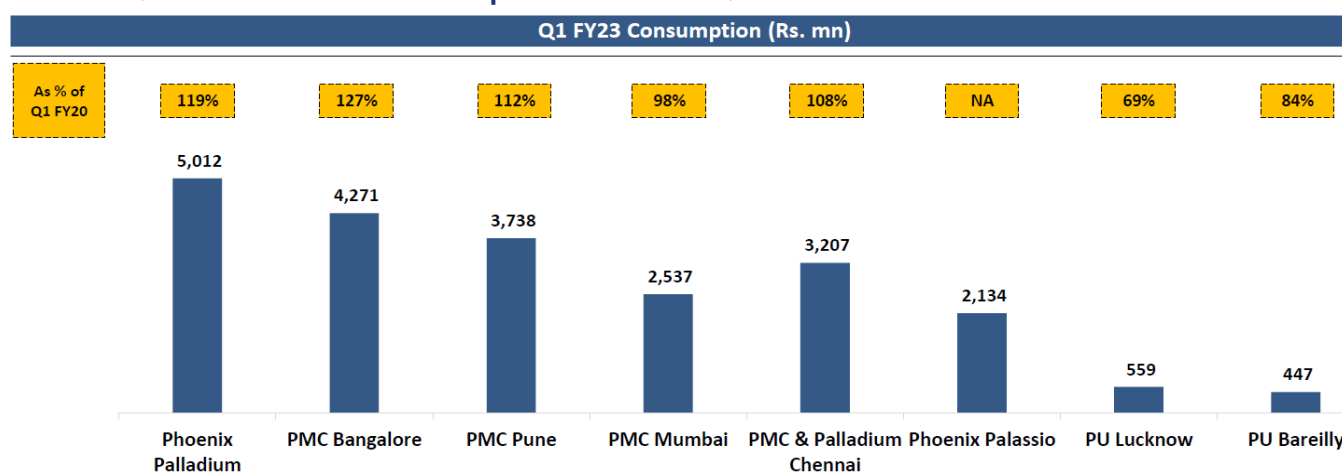
Source: Company data, I-Sec research, *Phoenix Palassio commenced operations in FY21

Chart 2: Jul'22 like-to-like consumption at 120% of Jul'19 levels



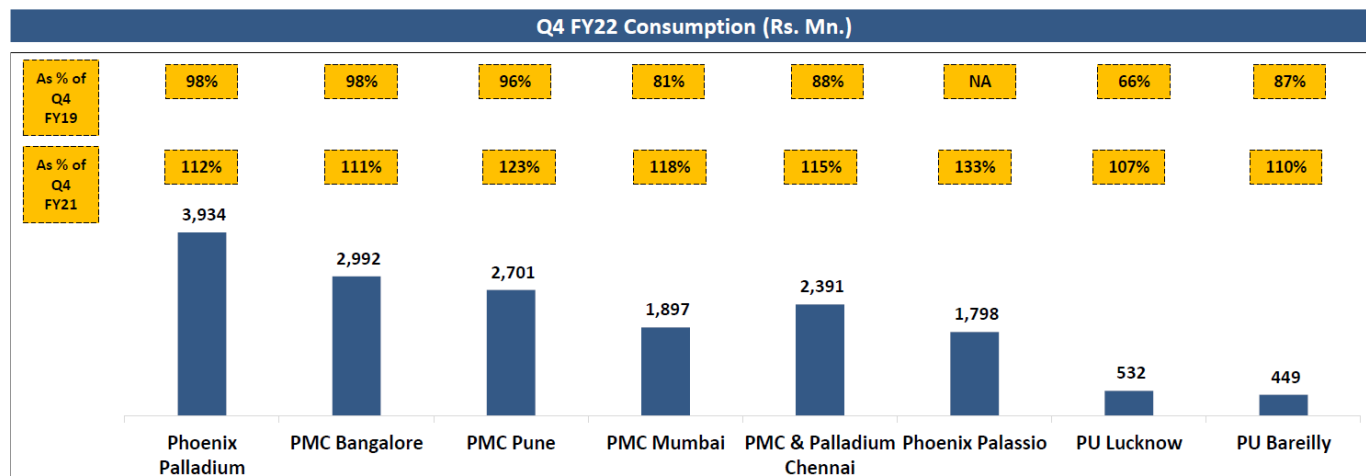
Source: Company data, I-Sec research, *Phoenix Palassio commenced operations in FY21

Chart 3: Q1FY23 like-to-like consumption at 111% of Q1FY20 levels



Source: Company data, I-Sec research, *Phoenix Palassio commenced operations in FY21

Chart 4: Q4FY22 like-to-like consumption at 92% of Q4FY19 levels



Source: Company data, I-Sec research, *Phoenix Palassio commenced operations in FY21

Table 1: Q1FY23 incremental revenue share vs. Q1FY20 (pre-Covid) levels

Malls	Rental Rates (psf)			% contribution to Total Rental Income		Area for renewal in FY23 (%)
	Q1FY23	Q1FY20	% change	Q1FY23	Q1FY20	
Phoenix Palladium Mumbai	444	406	9%	MG - 91%	MG - 92%	22%
				RS - 9%	RS - 8%	
Phoenix Marketcity Bangalore	162	124	31%	MG - 82%	MG - 91%	10%
				RS - 18%	RS - 9%	
Phoenix Marketcity Pune	153	125	23%	MG - 84%	MG - 90%	13%
				RS - 16%	RS - 10%	
Phoenix Marketcity Mumbai	112	101	11%	MG - 85%	MG - 86%	10%
				RS - 15%	RS - 14%	
Phoenix Marketcity and Palladium Chennai	148	137	8%	MG - 92%	MG - 97%	23%
				RS - 8%	RS - 3%	

Source: Company data, I-Sec research, *Phoenix Palassio commenced operations in FY21

Table 2: Q1FY23 asset-wise quarterly rental income*

Name of Asset	Q1 FY23		Q1 FY22
	Retail Income	% of Q1 FY20 (pre-COVID period)	Retail Income
	(Rs. mn)		(Rs. mn)
Phoenix Palladium	945	107%	293
Phoenix Marketcity Bangalore	460	128%	112
Phoenix Marketcity Pune	523	121%	109
Phoenix Marketcity Mumbai	374	116%	88
Phoenix Marketcity and Palladium Chennai	494	106%	149
Phoenix United Lucknow	90	117%	28
Phoenix United Bareilly	58	102%	19
Sub Total	2,945	113%	798
Phoenix Palassio (operational from July 2020)	279	NA	72
Grand Total	3,224	124%	870

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

Table 3: Q1FY23 asset-wise quarterly rental EBITDA*

Name of Asset	Q1 FY23		Q1 FY22
	EBITDA	% of Q1 FY20 (pre-COVID period)	EBITDA
	(Rs. mn)		(Rs. mn)
Phoenix Palladium	933	120%	349
Phoenix Marketcity Bangalore	468	121%	121
Phoenix Marketcity Pune	512	116%	98
Phoenix Marketcity Mumbai	358	111%	81
Phoenix Marketcity and Palladium Chennai	532	107%	140
Phoenix United Lucknow	82	113%	30
Phoenix United Bareilly	58	97%	20
Sub Total	2,942	115%	839
Phoenix Palassio (operational from July 2020)	306	NA	81
Grand Total	3,248	127%	920

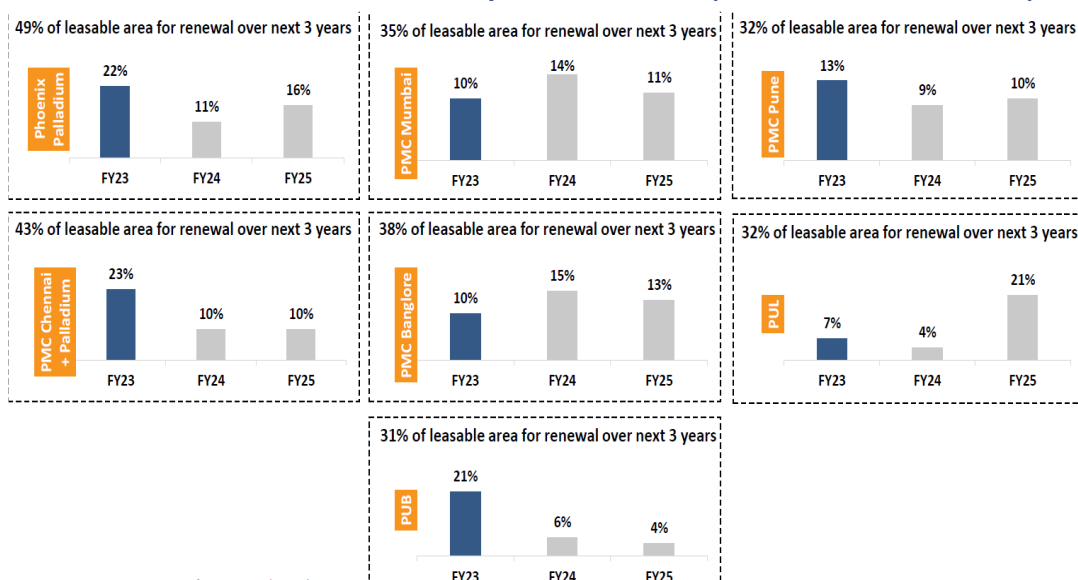
Source: Company data, I-Sec research, *Includes Palladium Chennai

Table 4: Occupancy and trading density trend across major malls*

	Leased Occupancy		Trading Occupancy		Trading Density (Rs. Per sq. ft. pm)	
	Jun-19 (Pre-covid)	Jun-22	Jun-19 (Pre-covid)	Jun-22	Q1FY20	Q1FY23
Phoenix Palladium	99%	97%	93%	86%*	3,025	3,330
Phoenix Marketcity Bangalore	99%	95%	96%	91%	1,749	2,351
Phoenix Marketcity Pune	99%	92%	97%	85%	1,441	1,852
Phoenix Marketcity Mumbai	97%	95%	94%	86%	1,222	1,220
Phoenix Marketcity and Palladium Chennai	98%	93%	96%	85%	1,322	1,602
Phoenix Palassio	NA	97%	NA	91%	NA	1,296





Source: Company data, I-Sec research, *due to new area addition

Chart 5: Renewal schedule across operational malls (% of total leasable area)



Source: Company data, I-Sec research

Chart 6: Status of under-construction malls

	Phoenix Citadel, Indore	Palladium, Ahmedabad	Phoenix Millennium, Pune	Phoenix Mall of Asia, Bangalore
Proposed GLA	Retail GLA – ~1 msf	Retail GLA – ~0.77 msf	Retail GLA – ~1.1 msf Office GLA – ~1.2 msf	Retail GLA – ~1.2 msf Office GLA – ~1.2 msf
Amount Spent till June 2022 (Rs Mn)	5,625	7,335	6,952	11,622
Status update				
Expected Year of Operation	FY23	FY23	Retail: FY24 Office: FY25	Retail: FY24 Office: FY25
Leasing Status till June 2022	83%	98%	73%	76%

Source: Company data, I-Sec research

Valuations & views

- We like PHNX because it: (1) has a strong brand recall and is the market leader in malls across India, (2) has a strong pipeline of projects and (3) is a derivative play on the Indian consumption story.
- We have valued PHNX on an SoTP basis with a combination of DCF-based NAV on FY23E basis assuming a cap rate of 8% for rental assets.
- **We reiterate our BUY rating with an unchanged target price of Rs1,645/share based on 20% premium to our Mar'23E NAV of Rs1,371/share which includes increase in Palladium, Mumbai leasable area and considers growth opportunities from new office capex and new malls (including Surat).**
- **Key risks to our call are a fresh Covid wave impacting mall consumption and fall in mall occupancies and rentals.**

Table 5: Key historical numbers and assumptions (including new assets)

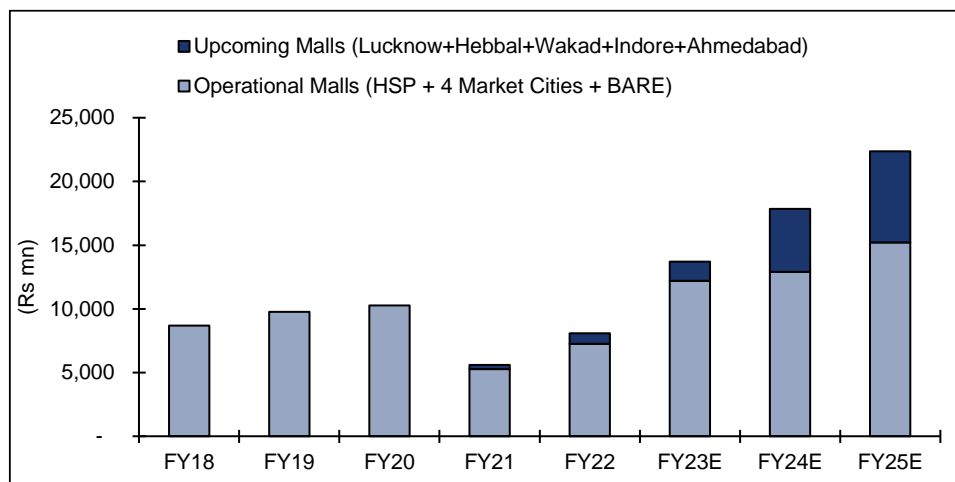
Year ending March	FY18	FY19	FY20	FY21	FY22	FY23E*	FY24E*
Rental properties							
Net rental income - 100% share (Rs mn)	8,693	9,762	10,275	5,632	7,967	13,718	17,863
Net rental income - PHNX share (Rs mn)	7,405	8,211	8,643	4,845	6,307	11,544	13,926

Source: Company data, I-Sec research estimates, *FY23E onwards includes 100% share in Chennai Mall rentals post acquisition in Apr'22

Table 6: SoTP valuation

Project	PHNX FY23E GAV (Rs mn)	Rs/share	% of GAV
High Street Phoenix – Palladium	66,761	390	26.2
High Street Phoenix – Rise – for 64% stake	18,315	107	7.2
Kurla (Offbeat Developers) – for 67% stake	12,945	76	5.1
Pune (Vamona Developers) – for 67% stake	17,578	103	6.9
Bengaluru East (Island Star) – for 51% stake	14,510	85	5.7
Pune Wakad (CPPIB-Island Star) – for 51% stake	6,828	40	2.7
Bengaluru Hebbal (CPPIB-Island Star) – for 51% stake	12,648	74	5.0
Ahmedabad Market City (BSafal) – for 50% stake	5,316	31	2.1
Indore Market City (CPPIB-Island Star) – for 51% stake	5,959	35	2.3
Lucknow – Gomti Nagar Market City – for 100% stake	16,317	95	6.4
Kolkata Market City – for 51% stake (Palladium/Platinum)	4,349	25	1.7
Bengaluru West (Palladium/Platinum)	7,840	46	3.1
Chennai (Classic Mall) – for 100% stake	25,991	152	10.2
St. Regis Hotel (Pallazio)	19,996	117	7.9
BARE (Lucknow & Bareilly)	8,994	53	3.5
Others	10,131	59	4.0
Total GAV	254,478	1,487	100.0
Less: FY23E Net Debt (PHNX economic share)	19,851	116	
FY23E NAV	234,628	1,371	
Add: 20% premium to NAV	46,926	274	
Target Price	281,553	1,645	

Source: I-Sec research estimates

Chart 7: Rental income CAGR of 17% over FY20-25E

Source: Company data, I-Sec research estimates

Table 7: PHNX - Sensitivity of Target Price to Cap Rate/WACC

Target Price	1,645	WACC (%)				
		9%	10%	11%	12%	13%
Cap Rate (%)	6%	2,094	1,985	1,886	1,794	1,709
	7%	1,939	1,840	1,749	1,665	1,587
	8%	1,821	1,729	1,645	1,567	1,495
	9%	1,728	1,641	1,562	1,489	1,422
	10%	1,653	1,570	1,495	1,426	1,362
	11%	1,590	1,512	1,440	1,374	1,313

Source: I-Sec research estimates

Financial Summary (consolidated)

Table 8: Earnings statement
(Rs mn, year ending March 31)

	FY21	FY22	FY23E*	FY24E*
Net Sales	10,733	14,884	27,127	33,571
Operating Expenses	5,792	7,545	11,678	13,945
EBITDA	4,941	7,339	15,448	19,627
<i>% margins</i>	46%	49%	57%	58%
Depreciation & Amortisation	2,094	1,859	3,319	3,461
Interest expenses	3,478	2,945	3,424	3,576
Other Income	923	744	782	821
Exceptional items	-	-	5,568	-
PBT	292	3,280	15,054	13,411
Less: Taxes	(47)	801	3,011	2,682
PAT before				
Minority/Associate	338	2,480	12,043	10,729
Minority/Associate share	237	(106)	(2,196)	(1,923)
Net Income (Reported)	576	2,374	9,847	8,806

Source: Company data I-Sec research, *FY23E onwards includes consolidation of Chennai mall SPV which was an associate earlier

Table 9: Balance sheet
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	22,127	23,360	36,487	43,340
<i>of which cash & cash eqv.</i>	5,139	5,926	19,302	26,405
Total Current Liabilities & Provisions	7,664	9,439	9,450	10,316
Net Current Assets	14,463	13,921	27,036	33,024
Goodwill/Investments	9,451	26,232	16,232	18,232
Net Fixed Assets	69,013	72,013	81,568	82,530
Capital WIP	12,740	20,486	26,590	29,892
Total Assets	1,05,666	1,32,651	1,51,426	1,63,677
Liabilities				
Borrowings	44,865	43,795	46,795	47,795
Equity Share Capital	344	357	357	357
Reserves & Surplus*	48,504	65,468	74,834	82,939
Net Worth	48,848	65,825	75,191	83,296
Minority Interest	13,190	24,288	30,697	33,843
Deferred Taxes	(1,237)	(1,257)	(1,257)	(1,257)
Total Liabilities	1,05,666	1,32,651	1,51,426	1,63,677

Source: Company data I-Sec research

Table 10: Cashflow statement
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
PBT	292	3,280	15,054	13,411
Depreciation	2,094	1,859	3,319	3,461
Non-Cash Adjustments	(913)	(912)	(911)	(911)
Working Capital Changes	(927)	713	261	1,116
Taxes Paid	47	(801)	(3,011)	(2,682)
Operating Cashflow	592	4,140	14,713	14,394
Capital Commitments	(6,949)	(12,271)	(18,979)	(7,724)
Free Cashflow	(6,357)	(8,132)	(4,266)	6,670
Other investing cashflow	-	(9)	10,000	(2,000)
Cashflow from Investing				
Activities	(6,949)	(12,280)	(8,979)	(9,724)
Issue of Share Capital*	11,357	26,067	4,000	1,000
Inc (Dec) in Borrowings	(2,228)	(805)	3,000	1,000
Dividend paid	(3)	(174)	(481)	(701)
Cashflow from Financing				
activities	9,127	25,087	6,519	1,299
Chg. in Cash & Bank				
balances	2,770	16,947	12,253	5,969

Source: Company data I-Sec research, *includes equity infusion from CPPIB/GIC in SPVs

Table 11: Key ratios
(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
EPS	3.4	13.9	57.5	51.4
Cash EPS	15.6	24.7	44.4	71.7
Dividend per share (DPS)	4.1	2.4	3.5	3.5
Book Value per share (BV)	285.4	384.5	439.2	486.6
Growth (%)				
Net Sales	(44.7)	38.7	82.3	23.8
EBITDA	(48.9)	48.5	110.5	27.0
PAT	(82.8)	312.4	314.9	(10.6)
Valuation Ratios (x)				
P/E	413.4	100.2	24.2	27.0
P/BV	4.9	3.6	3.2	2.9
EV / EBITDA	56.2	37.6	17.2	13.2
Dividend Yield	0.3	0.2	0.3	0.3
Operating Ratios				
Debt/EBITDA (x)	9.1	6.0	3.0	2.4
Net D/E	0.8	0.6	0.4	0.3
Return Ratios (%)				
RoE	1.0	3.8	13.7	10.8
RoCE	4.0	5.9	10.4	11.8
EBITDA Margins	46.0	49.3	56.9	58.5
Net Income Margins	5.4	15.9	36.3	26.2

Source: Company data I-Sec research

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