

Company update

Real Estate

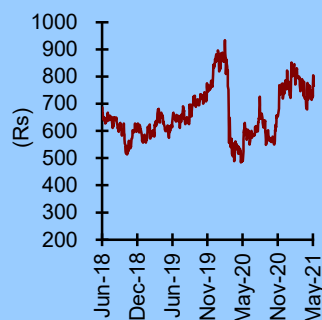
Target price: Rs1,026

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	45.6	45.5	45.5
Institutional investors	50.2	50.9	50.9
MFs and other	14.9	16.1	15.3
FIs/Banks/Ins	0.8	0.7	0.7
FII	34.5	34.1	34.9
Others	4.2	3.6	3.6

Source: NSE

Price chart



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INDIA

The Phoenix Mills

BUY
Maintained
Rs806

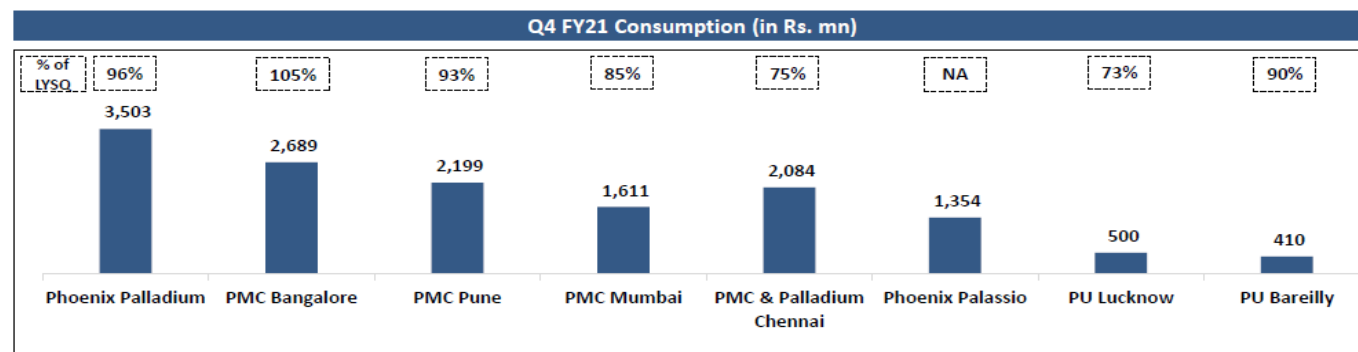
Building a war chest for growth

The Phoenix Mills (PHNX) has informed exchanges that the company along with few of its SPVs has executed definitive documents with GIC Private Equity (PE) for the formation of a retail-led mixed-use platform at a pre-money EV of Rs55bn for specific assets. These assets include PHNX's Mumbai (Kurla) and Pune malls and Mumbai (Kurla) offices that generated FY20 NOI of Rs3.7bn. GIC PE will initially get a 26.4% equity stake in these SPVs through fund infusion of Rs11.1bn with an option to invest a further Rs4bn to take its stake to between 33-36%. With Mar'21 liquidity of Rs10.3bn and potential fund infusion of Rs15.1bn from GIC PE and Rs9.6bn from CPPIB, PHNX is building a war chest for growth. We retain our BUY rating with an unchanged Mar-22 SoTP based target price of Rs1,026/share incorporating first tranche of GIC PE fund infusion. Key risks are the second Covid wave impacting mall consumption and fall in occupancies and rentals.

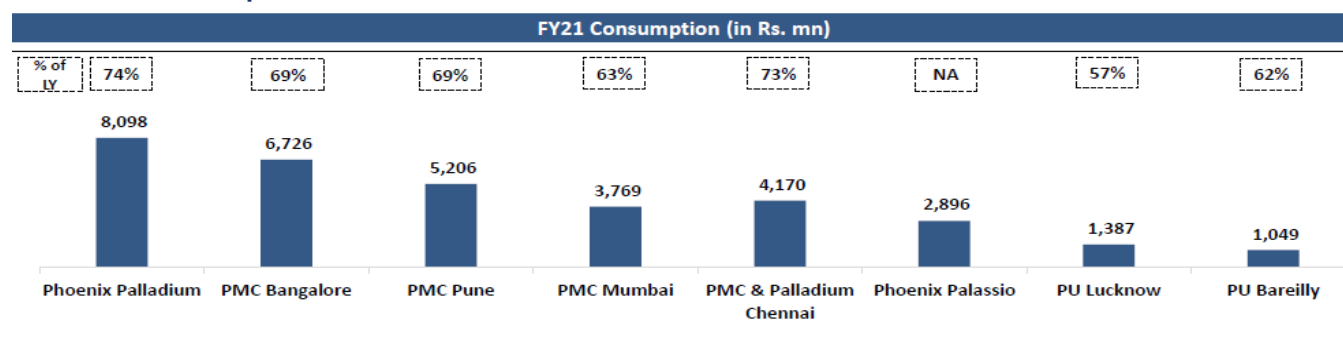
- **GIC PE fund infusion to provide ammunition for growth:** The indicated pre-money EV of for the GIC PE platform transaction of Rs55bn (Isec EV of Rs52bn) implies a cap rate of 6.5% (6.1% for malls and 8.5% for offices) based on combined pre-Covid FY20 Net Operating Income (NOI) of Rs3.7bn. In our view, this is commendable considering that ready Grade A office assets in India command a cap rate of ~8% and is similar to the cap rate of 6.3% which PHNX achieved for the platform deal signed with CPPIB in April 2017. With the first tranche of fund infusion of Rs11.1bn in FY22E (Rs8.3bn will flow to PHNX standalone balance sheet while Rs2.8bn will be retained at the SPV level), GIC PE will hold 26.4% equity stake in the identified asset SPVs which may rise to 33-36% within next 12 months.
- **PHNX to have a potential war chest of over Rs30bn to fuel growth:** As of Mar'21, PHNX had consolidated gross debt of Rs44.7bn along with cash/liquid investments of Rs10.3bn. With the first tranche of GIC PE fund infusion of Rs11.1bn and expected CPPIB fund infusion of Rs3.84bn in two tranches in Kolkata Mall SPV, PHNX may have ~Rs25bn of liquidity in H1FY22. Apart from this, including balance potential fund infusion by GIC PE of Rs4bn and balance CPPIB fund infusion of Rs1.8bn in Kolkata Mall SPV and Rs4bn in Island Star SPV, PHNX has access to additional funds of Rs10bn for deployment in standalone business and mall SPVs.
- **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). We expect PHNX to achieve a 14% rental income CAGR (ex-new Kolkata asset) 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 gross rental income in FY25E, PHNX share is ~70% or Rs13.8bn.

Market Cap	Rs136bn/US\$1.9bn	Year to Mar	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	PHOE.BO/PHNX IN	Revenue (Rs bn)	19.4	10.7	15.4	22.2
Shares Outstanding (mn)	171.9	Rec. Net Income (Rs bn)	3.3	0.5	1.7	4.4
52-week Range (Rs)	851/548	EPS (Rs)	21.9	3.1	10.1	25.5
Free Float (%)	54.4	% Chg YoY	(20.5)	(86.0)	227.8	154.0
FII (%)	34.9	P/E (x)	36.8	262.6	80.1	31.6
Daily Volume (US\$/'000)	2,386	P/B (x)	3.3	2.8	2.8	2.6
Absolute Return 3m (%)	(2.3)	EV/E (x)	17.3	36.0	22.4	13.9
Absolute Return 12m (%)	35.8	Dividend yield (%)	0.5	0.5	0.5	0.5
Sensex Return 3m (%)	3.3	RoCE (%)	9.5	4.0	5.7	8.6
Sensex Return 12m (%)	55.1	RoE (%)	8.4	0.9	3.2	8.2

Please refer to important disclosures at the end of this report

Chart 1: Q4FY21 like-to-like consumption across malls at 90% of Q4FY20 levels

Source: Company data, I-Sec research, *LYSQ = Last Year Same Quarter

Chart 2: Consumption in FY21 at 69% of FY20 levels on like-to-like basis

Source: Company data, I-Sec research

Table 1: Asset wise quarterly operating metrics

Rs mn	Q4FY21	% of Q4FY20	FY21	% of FY20
Retail Rental Income (ex-CAM)				
High Street Phoenix (HSP)	662	85%	1,962	56%
Bengaluru Market City	293	95%	779	55%
Pune Market City	336	96%	848	51%
Kurla Market City	255	90%	615	48%
Chennai Market City*	338	88%	782	43%
Lucknow Palladio	161	NA	321	N.A.
Phoenix United, Bareilly	64	89%	181	57%
Phoenix United, Lucknow	57	113%	145	65%
Total	2,167	97%	5,632	55%
Retail EBITDA				
High Street Phoenix (HSP)	539	68%	1,476	47%
Bengaluru Market City	309	104%	837	57%
Pune Market City	338	104%	823	50%
Kurla Market City	276	114%	639	52%
Chennai Market City*	359	104%	811	45%
Lucknow Palladio	171	N.A.	327	N.A.
Phoenix United, Bareilly	61	92%	170	60%
Phoenix United, Lucknow	53	99%	149	72%
Total	2,105	99%	5,231	54%

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 an unchanged Mar-22 SoTP based target price of Rs1,026/share assuming 25% like-to-like retail rental income loss in FY22E as compared to FY20 and incorporating first tranche of GIC fund infusion of Rs11.1bn in the identified asset SPVs. We retain our 10% premium to NAV considering growth opportunities from growth capital raised from GIC PE and CPPIB platform deals.**
- **Key risks to our call are an extended second Covid wave impacting mall consumption and fall in mall occupancies and rentals.**
- Our NAV factors in a one-time like-for-like loss of Rs2.5bn of rental income in FY22E 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.

Table 2: Key historical numbers and assumptions (including new assets)

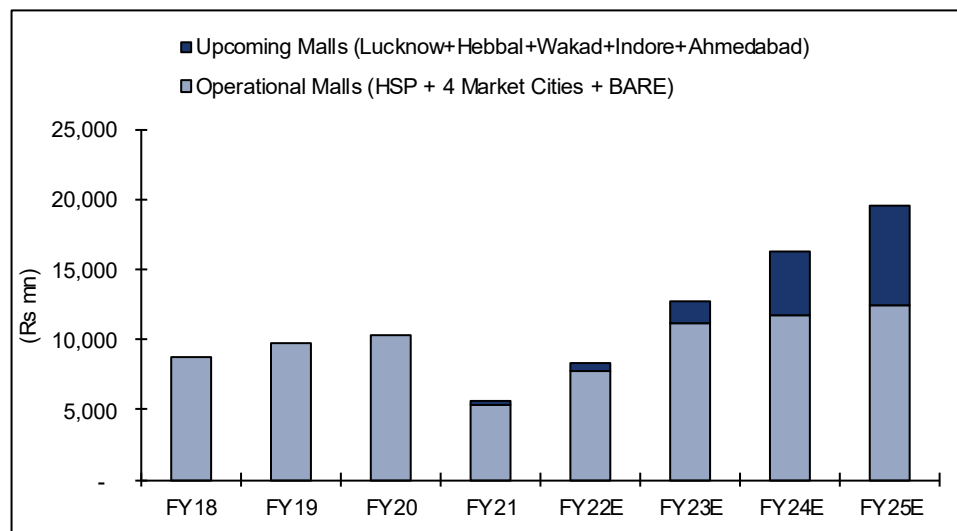
Year ending March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Rental properties							
Net rental income - 100% share	7,935	8,693	9,762	10,275	5,632	8,357	12,787
Net rental income - PHNX share	6,799	7,405	8,211	8,643	4,845	6,647	9,969

Source: Company data, I-Sec research estimates

Table 3: SoTP valuation

Project	PHNX FY22E GAV (Rs mn)	Rs/share	% of GAV
High Street Phoenix	48,339	282	26.8
Kurla (Offbeat Developers) – for 74% stake	13,962	82	7.7
Pune (Vamona Developers) – for 74% stake	18,146	106	10.0
Bengaluru East (Island Star) – for 51% stake	13,255	77	7.3
Pune Wakad (CPPIB-Island Star) – for 51% stake	3,569	21	2.0
Bengaluru Hebbal (CPPIB-Island Star) – for 51% stake	8,504	50	4.7
Ahmedabad Market City (BSafal) – for 50% stake	2,463	14	1.4
Indore Market City (CPPIB-Island Star) – for 51% stake	2,754	16	1.5
Lucknow – Gomti Nagar Market City – for 100% stake	15,453	90	8.6
Kolkata Market City – for 51% stake (Palladium/Platinum)	3,706	22	2.1
Bengaluru West (Palladium/Platinum)	7,840	46	4.3
Chennai (Classic Mall) – for 50% stake	13,371	78	7.4
St. Regis Hotel (Pallazio)	11,536	67	6.4
BARE (Lucknow & Bareilly)	7,666	45	4.2
Others	10,131	59	5.6
Total GAV	180,694	1,056	100.0
Less: FY22E Net Debt (PHNX economic share)	21,095	123	
FY22E NAV	159,599	932	
Add: 10% premium to NAV	15,960	93	
FY22E NAV	175,559	1,026	

Source: I-Sec research estimates

Chart 3: Rental income CAGR of 14% over FY20-25E

Source: Company data, I-Sec research estimates

Financial Summary (consolidated)

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

	FY20	FY21P	FY22E	FY23E
Net Sales	19,411	10,733	15,383	22,213
Operating Expenses	9,740	5,792	7,888	9,960
EBITDA	9,671	4,941	7,495	12,253
% margins	50%	46%	49%	55%
Depreciation & Amortisation	2,076	2,094	2,261	2,944
Interest expenses	3,478	3,478	3,740	3,732
Other Income	585	923	969	1,017
Exceptional items	78	-	-	-
PBT	4,624	292	2,463	6,594
Less: Taxes	1,221	(47)	493	1,319
PAT before				
Minority/Associate	3,403	338	1,971	5,276
Minority/Associate share	(56)	187	(249)	(903)
Net Income (Reported)	3,347	525	1,722	4,373

Source: Company data I-Sec research

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

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	19,117	22,127	35,423	34,499
of which cash & cash eqv.	1,407	5,139	18,685	18,011
Total Current Liabilities & Provisions	9,871	7,664	7,232	7,876
Net Current Assets	9,246	14,463	28,191	26,623
Goodwill/Investments	9,608	9,451	11,451	13,451
Net Fixed Assets	60,795	69,013	69,061	69,811
Capital WIP	15,341	12,740	17,329	21,873
Total Assets	94,990	1,05,666	1,26,031	1,31,758
Liabilities				
Borrowings	45,731	44,865	48,865	49,865
Equity Share Capital	307	344	344	344
Reserves & Surplus*	36,777	48,504	49,525	53,197
Net Worth	37,083	48,848	49,868	53,540
Minority Interest	12,788	13,190	28,534	29,590
Deferred Taxes	(612)	(1,237)	(1,237)	(1,237)
Total Liabilities	94,990	1,05,666	1,26,031	1,31,758

Source: Company data I-Sec research

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

	FY20	FY21P	FY22E	FY23E
PBT	4,624	292	2,463	6,594
Depreciation	2,076	2,094	2,261	2,944
Non-Cash Adjustments	(914)	(913)	(912)	(911)
Working Capital Changes	(1,422)	(927)	(181)	894
Taxes Paid	(1,221)	47	(493)	(1,319)
Operating Cashflow	3,143	592	3,138	8,202
Capital Commitments	(7,417)	(6,949)	(6,898)	(8,239)
Free Cashflow	(4,273)	(6,357)	(3,760)	(36)
Other investing cashflow	-	-	(2,000)	(2,000)
Cashflow from Investing				
Activities	(7,417)	(6,949)	(8,898)	(10,239)
Issue of Share Capital*	63	11,357	14,950	-
Inc (Dec) in Borrowings	647	(2,228)	4,000	1,000
Dividend paid	(556)	(3)	(701)	(701)
Cashflow from Financing				
activities	154	9,127	18,249	299
Chg. in Cash & Bank				
balances	(4,120)	2,770	12,489	(1,737)

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

Table 7: Key ratios
(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	21.9	3.1	10.1	25.5
Cash EPS	35.4	15.3	23.3	42.7
Dividend per share (DPS)	3.7	4.1	4.1	4.1
Book Value per share (BV)	242.4	285.4	291.3	312.8
Growth (%)				
Net Sales	(2.0)	(44.7)	43.3	44.4
EBITDA	(2.6)	(48.9)	51.7	63.5
PAT	(20.5)	(84.3)	227.8	154.0
Valuation Ratios (x)				
P/E	36.8	262.6	80.1	31.6
P/BV	3.3	2.8	2.8	2.6
EV / EBITDA	17.3	36.0	22.4	13.9
Dividend Yield	0.5	0.5	0.5	0.5
Operating Ratios				
Debt/EBITDA (x)	4.7	9.1	6.5	4.1
Net D/E	1.2	0.8	0.6	0.6
Return Ratios (%)				
RoE	8.4	0.9	3.2	8.2
RoCE	9.5	4.0	5.7	8.6
EBITDA Margins	49.8	46.0	48.7	55.2
Net Income Margins	17.2	4.9	11.2	19.7

Source: Company data I-Sec research

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