

Phoenix Mills

Estimate change



TP change



Rating change



Bloomberg	PHNX IN
Equity Shares (m)	179
M.Cap.(INRb)/(USDb)	300.6 / 3.6
52-Week Range (INR)	1797 / 1186
1, 6, 12 Rel. Per (%)	3/13/17
12M Avg Val (INR M)	383

Financials & Valuations (INR b)

Y/E Mar	FY23	FY24E	FY25E
Sales	26.4	34.6	41.3
EBITDA	15.2	21.0	25.9
EBITDA (%)	57.6	60.7	62.7
PAT	7.3	9.6	13.3
EPS (INR)	40.9	53.8	74.7
EPS Gr. (%)	207.5	31.7	38.8
BV/Sh. (INR)	469.4	520.5	592.3

Ratios

Net D/E	0.4	0.3	0.1
RoE (%)	9.8	10.9	13.4
RoCE (%)	9.9	10.9	13.2
Payout (%)	3.2	5.0	4.0

Valuations

P/E (x)	41.3	31.4	22.6
P/BV (x)	3.6	3.2	2.9
EV/EBITDA (x)	22.3	15.7	12.1
Div Yield (%)	0.1	0.2	0.2

Shareholding pattern (%)

As on	Jun-23	Mar-23	Jun-22
Promoter (%)	47.3	47.3	47.3
DII (%)	19.9	18.1	16.7
FII (%)	28.6	30.4	31.6
Others (%)	4.2	4.3	4.4

CMP: INR1685 TP: 1845 (+10%) Downgrade to Neutral

An all-round beat but near-term growth priced in

We initiated coverage on Phoenix Mills (PHNX) in Mar'23 with a positive view on the back of a healthy ramp-up in new malls in Indore and Ahmedabad and the scheduled completion of malls in Pune and Bengaluru (est. 34% EBITDA CAGR over FY23-25). The company has progressed well on ramping up occupancy in Indore and Ahmedabad and is on track to deliver Pune and Bengaluru malls in 2QFY24. Thus, we continue to estimate a 31% EBITDA CAGR over FY23-25E. However, with a 30% run-up in the stock price since our initiation, we believe a large part of earnings growth over the next two years is already priced in and see limited upside potential in the near term. Hence, we downgrade PHNX to Neutral.

Higher-than-expected revenue drives EBITDA/PAT beat

- In 1QFY24, PHNX reported revenue of INR8.1b, up 41% YoY/11% QoQ and 5% above our estimate. Growth was driven by strong performances in the retail and hospitality verticals.
- EBITDA grew by 52% YoY to INR4.9b (9% beat), which was higher than revenue growth as margin expanded by ~450bp YoY and ~170bp QoQ to 60.7%. PAT was up 50% YoY at INR2.4b (20% above our estimate) with a margin of ~30%, up 150bp YoY.
- PHNX generated OCF (post interest) of INR4.5b and incurred INR3.4b in capex. Gross debt remained flat at INR40b, while net debt (PHNX share) declined by INR1.5b to INR16.3b.

Consumption in Retail portfolio up 9% YoY on LFL basis

- Consumption across PHNX's mall portfolio increased by 18% YoY to INR25.7b. Excluding the contribution from recently opened malls in Indore and Ahmedabad, consumption was up 9% YoY. In Jul'23 it was up 6% YoY at INR9.3b.
- Retail income growth was in line with consumption growth at 17% YoY to INR3.8b. Trading occupancy increased by 200bp for the portfolio to 89%. Retail EBITDA came in at INR3.9b, up 19% YoY, at a margin of 75% over total income.
- The company is on track to deliver new malls in Wakad, Pune, and Hebbal, Bengaluru, in 2QFY24. With 60-65% of area already under fit-out, we believe a faster pick-up in trading occupancy of these new malls will lead to a 30% CAGR in retail rentals to INR22b by FY25E.

Hospitality performance remains strong across key parameters; commercial performance also steady

- St. Regis continued to clock over 80% of occupancy for the fifth quarter in a row, with 1QFY24 occupancy of 82%. For Marriott Agra, occupancy was down 700bp QoQ but up 10pp YoY at 72%.
- ARR for St. Regis was up 38% YoY at ~INR16,500, while ARR for Marriott Agra grew 18% YoY. Overall revenue increased by 34% to INR1.2b, while EBITDA for St. Regis stood at INR480m, with 43% margin.
- **Commercial performance:** PHNX reported gross leasing of 0.18msf and net leasing of 0.03msf during the quarter. Total income and EBITDA from the office portfolio grew 11% YoY to INR449m and INR261m, respectively.

Highlights from the management commentary

- **Consumption:** Trading occupancy for all malls will be at 95%+ by 3QFY24 (89% now) and the commencement of new malls will complement consumption. Historically the company has witnessed 8-10% SSG at high trading occupancy and expects a similar trend to pan out. A strong content pipeline, subsiding monsoon and long weekends, along with festivals, will further drive consumption growth in 2QFY24.
- **Office portfolio scale-up:** PHNX will sign its first deal at the first phase of its new Bengaluru office once OC is received in the next few weeks. Pre-leasing is prevalent in malls as retailers have expansion plans for the next 3-4 years. But in office, RFPs come out six months prior to intended dates of operation. Hence, leasing traction is relatively moderate vs. malls but will pick up as assets get completed.
- **Debt trajectory:** PHNX has been generating robust OCF but it will release its equity to deploy in other growth opportunities. So debt is expected to inch up given the strong balance sheet and high interest cover.
- While debt on U/C assets will remain minimal, but as and when assets become operational, PHNX will draw debt via LRDs to optimize the capital structure.

Valuation and view

- PHNX delivered a better-than-expected revenue performance in 1QFY24, which led to a beat across the parameters. We raise our FY24E/FY25E PAT by 4% on the back of higher rentals and better margins.
- We believe the company's growth trajectory remains intact, but current valuations indicate that near-term growth is priced in. **Hence, we downgrade the stock to Neutral with our SOTP-based revised TP of INR1,845 (10% upside potential).**
- While near-term growth is priced in, the company's upcoming mall portfolio provides strong growth visibility over the next 3-4 years. Hence, if we push up the valuation base to the end of FY27 (two-year return), taking into account a stabilized rental run rate for the upcoming malls and no pending capex, then **our valuation for the retail segment increases to INR315b from INR260b in the base case. Accordingly, our TP increases to INR2,150, indicating a two-year return potential of 28%.**

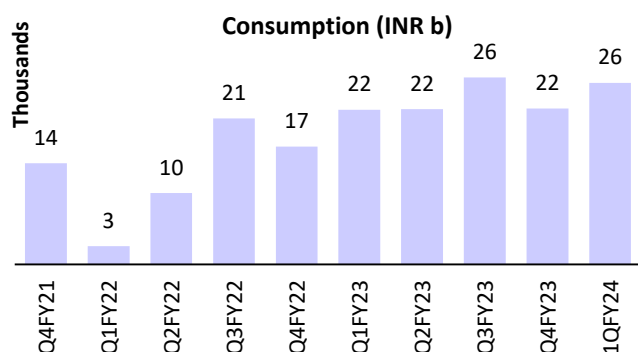
Financial Performance

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		1QE		%
Gross Sales	5,744	6,511	6,838	7,290	8,106	7,819	9,124	9,588	26,383	34,637	7,700	5%
YoY Change (%)	188.2	79.0	60.9	47.2	41.1	20.1	33.4	31.5	77.8	31.3	34.1	
Total Expenditure	2,515	2,702	2,994	2,983	3,183	3,281	3,697	3,469	11,194	13,630	3,165	
EBITDA	3,229	3,809	3,845	4,307	4,923	4,538	5,427	6,119	15,189	21,008	4,535	9%
Margins (%)	56.2	58.5	56.2	59.1	60.7	58.0	59.5	63.8	57.6	60.7	58.9	184bps
Depreciation	500	559	569	650	630	800	900	1,067	2,278	3,396	700	
Interest	741	834	866	971	957	856	828	767	3,412	3,408	883	
Other Income	235	324	347	257	290	260	265	232	1,163	1,047	250	
PBT before EO expense	2,223	2,739	2,757	2,943	3,627	3,143	3,964	4,517	10,663	15,250	3,202	
Extra-Ord expense	5,568	0	0	484	0	0	0	0	6,052	0	0	
PBT	7,791	2,739	2,757	3,428	3,627	3,143	3,964	4,517	16,714	15,250	3,202	13%
Tax	341	520	633	496	730	786	991	1,325	1,989	3,831	800	
Rate (%)	15.3	19.0	23.0	16.8	20.1	25.0	25.0	29.3	18.7	25.1	25.0	
MI & P/L of Asso. Cos.	263	361	360	391	492	416	470	430	-1,375	-1,808	421	17%
Reported PAT	7,187	1,858	1,764	2,541	2,405	1,941	2,503	2,762	13,350	9,611	1,980	
Adj PAT	1,619	1,858	1,764	2,057	2,405	1,941	2,503	2,762	7,298	9,611	1,980	21%
YoY Change (%)	-765.7	220.3	78.3	96.3	48.5	4.4	41.9	34.3	121.3	1,631.3	22.3	
Margins (%)	28.2	28.5	25.8	28.2	29.7	24.8	27.4	28.8	27.7	27.7	25.7	

Source: Company, MOFSL

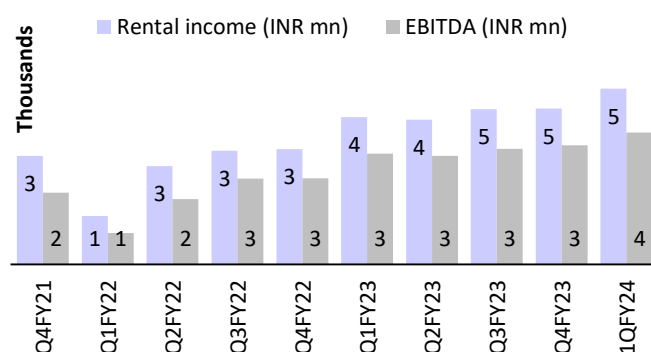
Key exhibits

Exhibit 1: Consumption across malls increased 17% YoY, aided by commencement of new malls



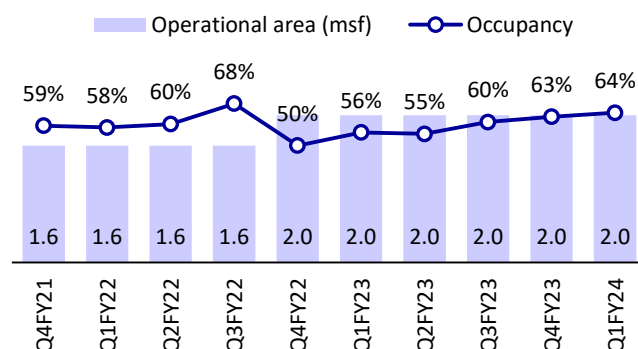
Source: Company, MOFSL

Exhibit 2: Rental Income/EBITDA grew by 19% YoY



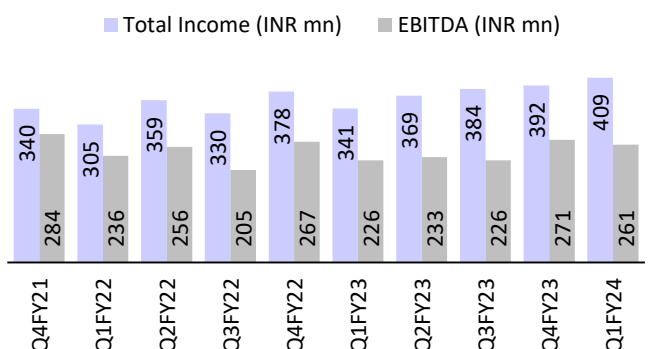
Source: Company, MOFSL

Exhibit 3: Office portfolio saw steady rise in occupancy...

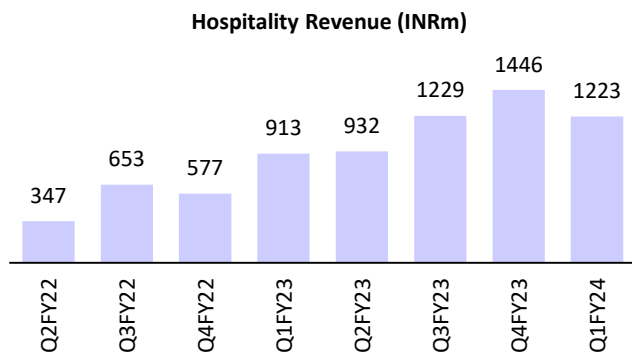


Source: MOFSL, Company

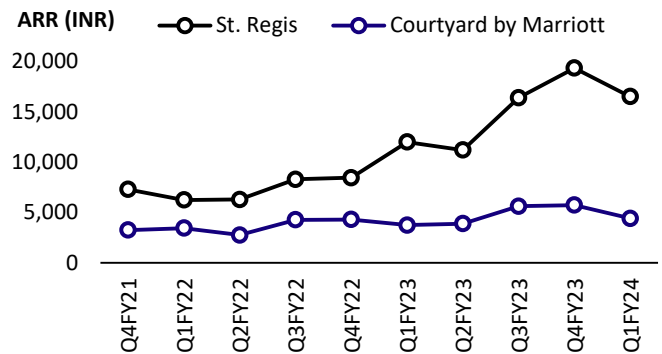
Exhibit 4: ...and rental income tracked similar trend



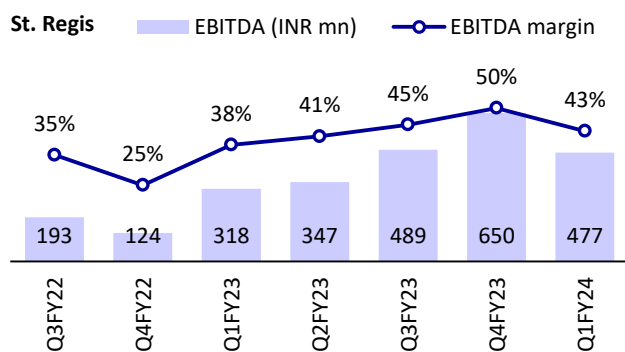
Source: MOFSL, Company

Exhibit 5: Hospitality segment benefited from industry tailwind...

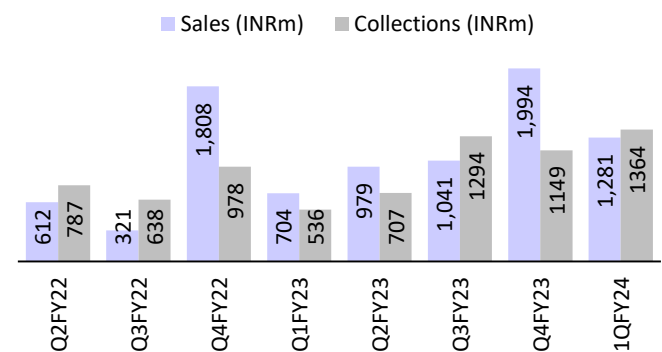
Source: Company, MOFSL

Exhibit 6: ...which is also reflected in sharp rise in ARR

Source: Company, MOFSL

Exhibit 7: Flagship hotel generated EBITDA of INR477m

Source: MOFSL, Company

Exhibit 8: Traction in residential business significantly improved for the last two quarters

Source: MOFSL, Company

Story in charts

Exhibit 9: PHNX has scaled up its leasable portfolio to ~9msf

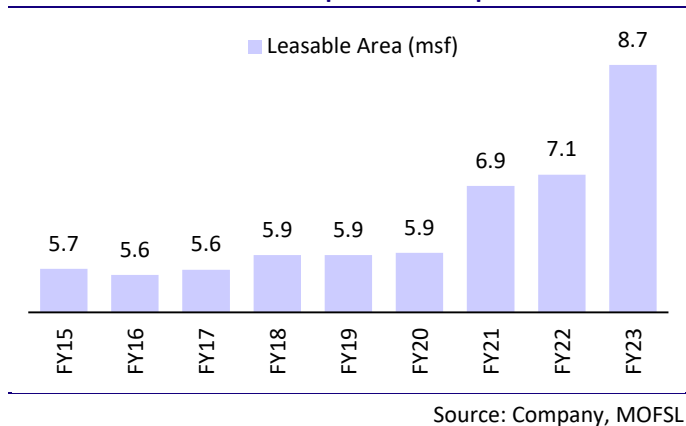


Exhibit 10: Occupancy reduced due to completion of new malls

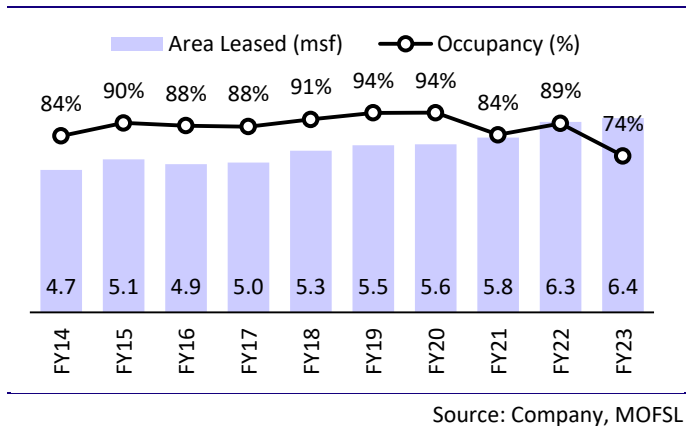


Exhibit 11: Consumption saw 9% CAGR over FY14-20

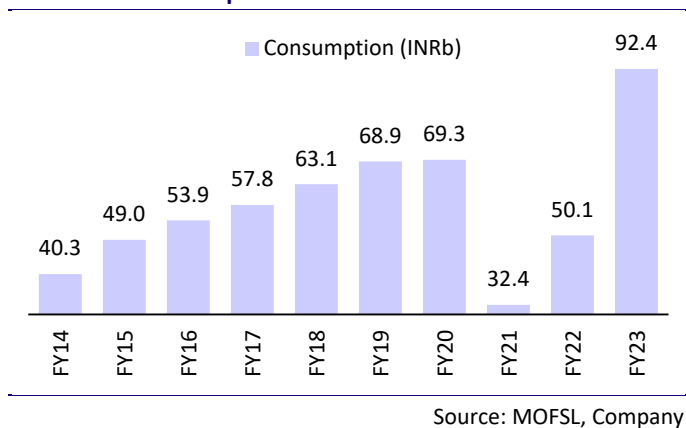


Exhibit 12: Rental income tracked consumption growth

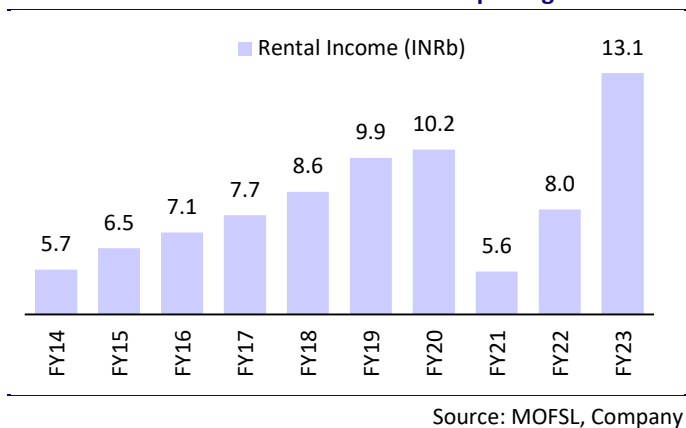


Exhibit 13: Retail portfolio to increase to 14msf by FY27

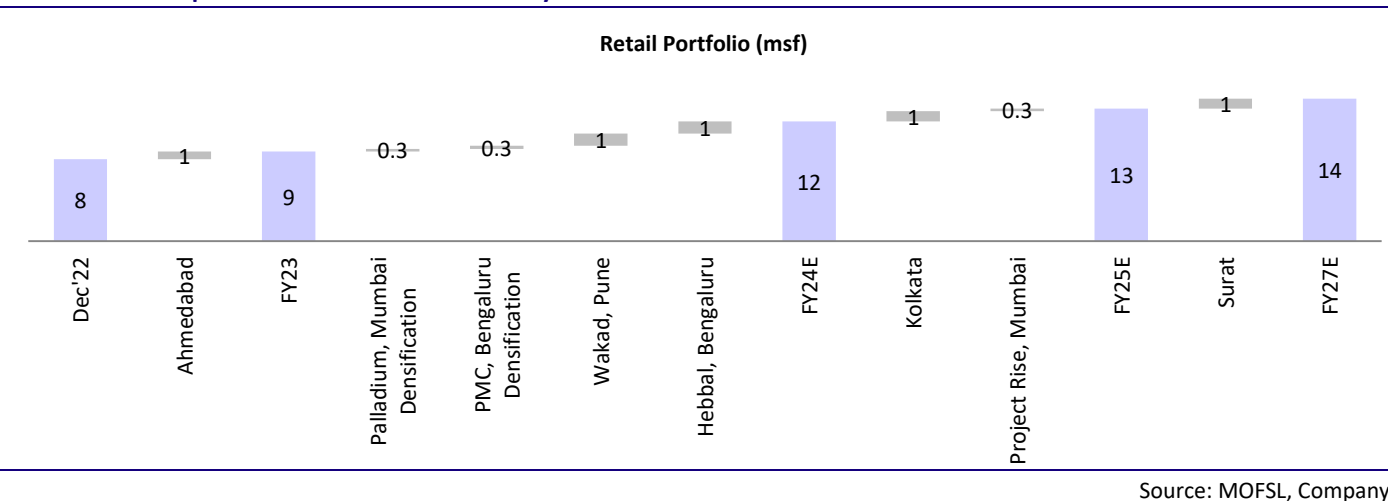
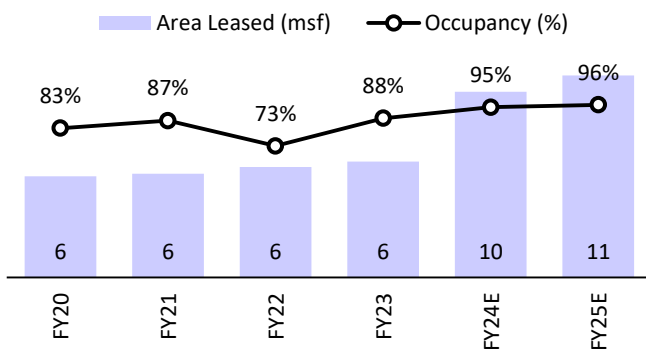
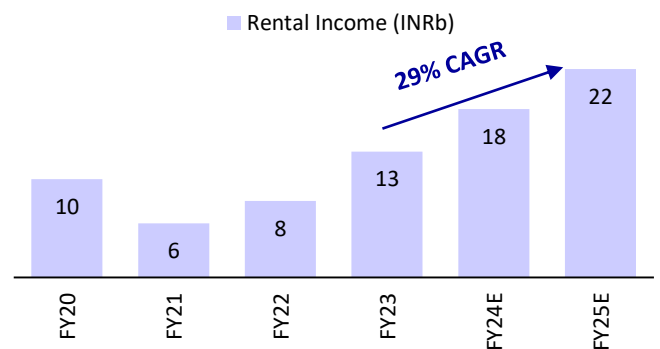
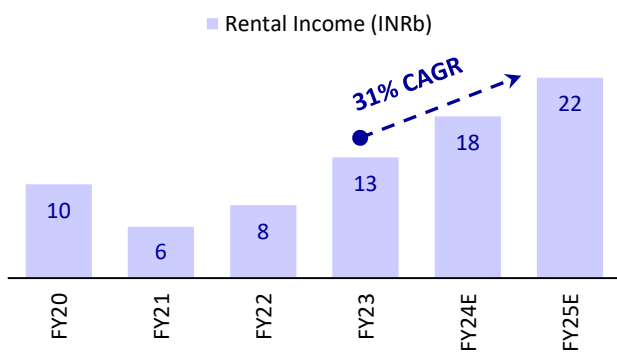


Exhibit 14: Occupancy expected to inch up toward 96%

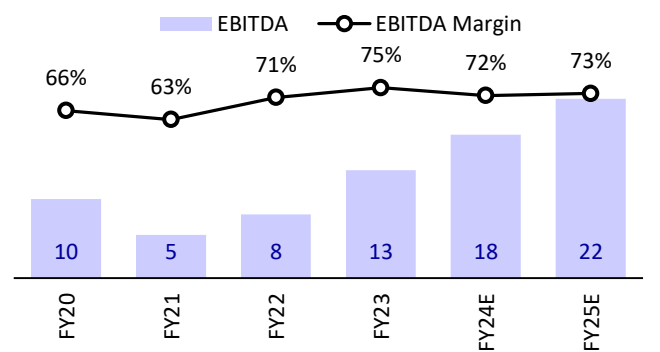
Source: MOFSL, Company

Exhibit 15: Rental income of retail portfolio to report 29% CAGR over FY23-25

Source: MOFSL, Company

Exhibit 16: Expect PHNX's total income to register 31% CAGR over FY23-25

Source: MOFSL, Company

Exhibit 17: Retail EBITDA to grow by ~1.5x by FY25

Source: MOFSL, Company

Other key con-call Takeaways

Margin:

- Increased occupancy and event fees drove margin expansion in malls. Similarly, rising occupancies in hotels and office assets contributed to margin expansion.
- PHNX expects a further gain of 100-150bp, post which it should stabilize.

Category trends:

- **Category-wise growth:** +31% YoY in Jewelry, +24% in F&B, +17% in Fashion and accessories, +3% in Family entertainment center, +2% in Electronics, and 88% in Gourmet stores.
- PHNX is allocating a bigger area for fast-growing categories. The Fashion and accessories category accounts for 55% of overall leased area. Jewelry accounts for 1% area but contributes 11% to consumption. F&B accounts for 10% of area and contributes 11%.

Status of new assets:

- The company has received OC for new malls in Pune and Bengaluru. Fit-outs at Millennium Mall, Pune, are under progress for 0.7msf (190 stores). The office tower will commence in FY25.
- Similarly, 0.7msf (214 stores) is under fit-outs at Mall of Asia, Bengaluru. The first phase of office with 0.8msf area will commence by the end of FY24.

- Ahmedabad is a premium development compared to Indore. The avg. rentals at Indore will stabilize at INR87-90/sqft vs. INR145+/sqft in Ahmedabad.
- Although the size of the asset is small, it will continue to contribute significantly to rentals, driven by higher rentals.

Exhibit 18: Estimates Change

(INR b)	Old		New		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	35	41	35	41	0%	1%
EBITDA	20	25	21	26	3%	2%
Adj. PAT	9	13	10	13	4%	4%

Source: Company, MOFSL

Valuation and view**We value PHNX based on SoTP valuation:**

- **Operational Retail assets** are valued using a cap rate of 7% for Palladium malls and 7.5% for Market city malls on Mar'25E EBITDA. **Ongoing retail assets** are valued using DCF with a terminal value applied to the stabilized EBITDA run rate of respective assets and discounting back to Mar'25E.
- **Operational boutique offices** are valued at a cap rate of 9% and upcoming office assets are valued using DCF and a cap rate of 8%.
- **Hospitality business** is valued using 12-15x EV/EBITDA multiple on Mar'25E. We have not assigned any value to its upcoming Grand Hyatt hotel in Bengaluru.
- **Residential business** is valued at NPV with WACC of 11%.

Based on the above SoTP approach, we arrive at a gross asset value of INR336b. Net of FY23E net debt of INR19b, we derive an NAV of INR317b or INR1,845 per share, indicating an upside potential of 10%.

Exhibit 19: Our SoTP-based TP of INR1,845 indicates an upside potential of 10%

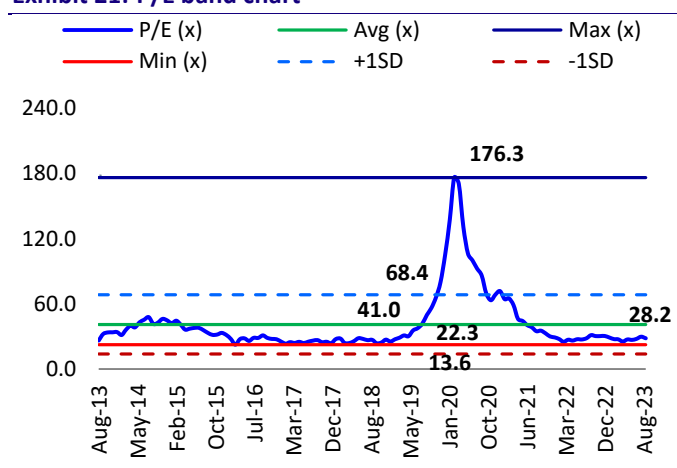
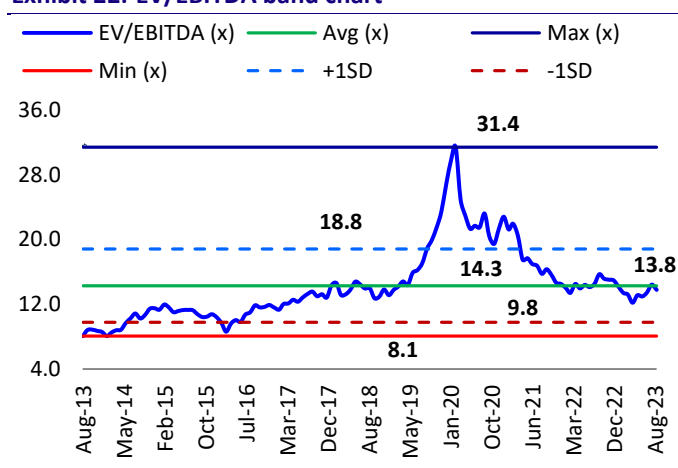
Nav Calculation	Rationale	INR b	per share (INR)	%
Retail - Operational	❖ Mar'25E EBITDA discounted at cap rate of 7-7.5%	217	1,264	68
Retail - Ongoing	❖ Steady state EBITDA at a cap rate of 7-7.5% discounted back to Mar'25 using WACC of 11%	42	242	13
Total Retail		259	1,506	82
Office - Operational	❖ Mar'25E EBITDA discounted at cap rate of 8-9%	14	82	4
Office - Ongoing	❖ Steady state EBITDA at a cap rate of 8% discounted back to Mar'25 using WACC of 11%	22	129	7
Total Office		36	211	11
Hospitality	❖ EV/EBITDA multiple of 12-15x on Mar'25E EBITDA	31	182	10
Residential	❖ NPV at WACC of 11%	10	58	3
Gross Asset Value		336	1,957	106
Less: Net Debt		(19)	(112)	-6
Net Asset Value		317	1,845	100
CMP			1,685	
Up/down			10%	

Source: MOFSL

Exhibit 20: Taking a two-year view for stabilization of upcoming mall, TP increases to INR2,175, 29% upside

Nav Calculation	Rationale	INR b	per share (INR)	%
Retail - Operational	❖ Mar'27E EBITDA discounted at cap rate of 7-7.5%	252	1,466	67
Retail - Ongoing	❖ Steady state EBITDA at a cap rate of 7-7.5%	64	371	17
Total Retail		316	1,837	84
Office - Operational	❖ Mar'25E EBITDA discounted at cap rate of 8-9%	14	82	4
Office - Ongoing	❖ Steady state EBITDA at a cap rate of 8% discounted back to Mar'25 using WACC of 12%	22	129	6
Total Office		36	211	10
Hospitality	❖ EV/EBITDA multiple of 15-18x on Mar'25E EBITDA	31	181	8
Residential	❖ NPV at WACC of 12%	10	58	3
Gross Asset Value		393	2,286	105
Less: Net Debt	❖ FY24E	(19)	(112)	-5
Net Asset Value		374	2,175	100
CMP			1,68	
Up/down			29%	

Source: Company, MOFSL

Exhibit 21: P/E band chart**Exhibit 22: EV/EBITDA band chart**

Financials and Valuation

Consolidated - Income Statement

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	19,816	19,411	10,450	14,835	26,383	34,637	41,315
Change (%)	22.3	-2.0	-46.2	42.0	77.8	31.3	19.3
Cost of Materials/Construction	2,189	1,959	769	1,030	1,489	2,405	2,868
Employees Cost	1,615	1,655	1,125	1,569	2,325	3,117	3,718
Other Expenses	6,081	6,126	3,614	4,896	7,381	8,108	8,821
Total Expenditure	9,884	9,740	5,508	7,496	11,194	13,630	15,408
% of Sales	49.9	50.2	52.7	50.5	42.4	39.3	37.3
EBITDA	9,932	9,671	4,942	7,339	15,189	21,008	25,907
Margin (%)	50.1	49.8	47.3	49.5	57.6	60.7	62.7
Depreciation	2,042	2,076	2,094	1,859	2,278	3,396	3,872
EBIT	7,889	7,595	2,848	5,481	12,911	17,611	22,035
Int. and Finance Charges	3,506	3,478	3,478	2,945	3,412	3,408	2,770
Other Income	851	585	923	744	1,163	1,047	1,306
PBT bef. EO Exp.	5,235	4,702	292	3,280	10,663	15,250	20,570
EO Items	481	78	0	0	6,052	0	0
PBT after EO Exp.	5,716	4,780	292	3,280	16,714	15,250	20,570
Total Tax	1,099	1,221	-47	801	1,989	3,831	5,167
Tax Rate (%)	19.2	25.4	-16.0	24.4	18.7	25.1	25.1
Share of associate	-760	-538	138	202	51	359	508
Minority Interest	-353	-326	-99	308	1,426	2,167	2,568
Reported PAT	4,210	3,347	576	2,374	13,350	9,611	13,343
Adjusted PAT	3,822	3,297	576	2,374	7,298	9,611	13,343
Change (%)	57.8	-13.7	-82.5	311.8	207.5	31.7	38.8
Margin (%)	19.3	17.0	5.5	16.0	27.7	27.7	32.3

Consolidated - Balance Sheet

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	307	307	344	357	357	357	357
Total Reserves	34,435	38,268	50,044	65,468	83,440	92,569	1,05,377
Net Worth	34,741	38,575	50,388	65,825	83,797	92,927	1,05,734
Minority Interest	12,233	10,660	11,014	24,288	26,963	35,449	42,145
Total Loans	42,437	43,084	40,626	39,821	42,593	37,593	27,593
Deferred Tax Liabilities	-1,387	-585	-1,215	-1,209	1,238	1,238	1,238
Capital Employed	88,025	91,734	1,00,812	1,28,725	1,54,591	1,67,206	1,76,710
Gross Block	73,788	75,124	84,595	89,428	1,23,156	1,48,556	1,61,206
Less: Accum. Deprn.	12,277	14,309	15,582	17,409	19,687	23,084	26,956
Net Fixed Assets	61,511	60,815	69,013	72,019	1,03,468	1,25,472	1,34,250
Goodwill on Consolidation	3,713	3,058	3,058	3,058	6,176	6,176	6,176
Capital WIP	8,963	15,343	12,740	20,486	22,947	11,109	6,884
Total Investments	7,450	5,913	5,756	23,173	12,823	13,182	13,690
Curr. Assets, Loans&Adv.	18,133	19,096	22,110	23,354	28,843	36,221	43,268
Inventory	8,987	8,161	7,682	7,498	12,117	10,269	10,553
Account Receivables	1,955	2,058	3,237	2,799	2,382	4,270	4,528
Cash and Bank Balance	1,920	1,407	5,139	5,926	6,302	9,558	15,793
Loans and Advances	5,271	7,470	6,053	7,131	8,041	12,123	12,394
Curr. Liability & Prov.	11,744	12,490	11,865	13,366	19,665	24,953	27,558
Account Payables	1,700	1,101	950	1,299	1,585	2,241	2,533
Other Current Liabilities	9,394	10,628	9,580	10,499	16,251	19,051	20,657
Provisions	651	761	1,335	1,568	1,829	3,662	4,368
Net Current Assets	6,388	6,606	10,245	9,988	9,178	11,268	15,710
Appl. of Funds	88,025	91,735	1,00,812	1,28,725	1,54,592	1,67,206	1,76,710

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	24.9	21.5	3.4	13.3	40.9	53.8	74.7
Cash EPS	38.2	35.0	15.5	23.7	53.6	72.9	96.4
BV/Share	226.4	251.4	293.2	368.7	469.4	520.5	592.3
DPS	2.6	3.3	0.0	1.0	2.4	2.7	3.0
Payout (%)	11.4	16.6	0.0	7.2	3.2	5.0	4.0
Valuation (x)							
P/E	51.4	59.6	381.7	96.3	41.3	31.4	22.6
Cash P/E	33.5	36.6	82.4	54.0	31.5	23.2	17.5
P/BV	5.7	5.1	4.4	3.5	3.6	3.2	2.9
EV/Sales	12.0	12.3	24.4	17.7	12.8	9.5	7.6
EV/EBITDA	23.9	24.6	51.7	35.8	22.3	15.7	12.1
Dividend Yield (%)	0.2	0.3	0.0	0.1	0.1	0.2	0.2
Return Ratios (%)							
RoE	12.1	9.0	1.3	4.1	9.8	10.9	13.4
RoCE	9.9	7.7	5.1	4.8	9.9	10.9	13.2
RoIC	10.2	8.2	4.5	5.3	11.0	10.7	12.1
Working Capital Ratios							
Asset Turnover (x)	0.2	0.2	0.1	0.1	0.2	0.2	0.2
Inventory (Days)	166	153	268	184	168	108	93
Debtor (Days)	36	39	113	69	33	45	40
Creditor (Days)	31	21	33	32	22	24	22
Leverage Ratio (x)							
Interest Cover Ratio	2.3	2.2	0.8	1.9	3.8	5.2	8.0
Net Debt/Equity	1.2	1.1	0.7	0.5	0.4	0.3	0.1

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR M)							
OP/(Loss) before Tax	5,716	4,702	292	3,280	16,714	15,250	20,570
Depreciation	2,042	2,076	2,094	1,859	2,278	3,396	3,872
Interest & Finance Charges	3,134	3,478	3,478	2,945	2,249	2,361	1,465
Direct Taxes Paid	-804	-1,082	124	-577	-1,989	-3,831	-5,167
(Inc)/Dec in WC	-7,175	-1,422	-974	713	1,187	1,166	1,792
CF from Operations	2,913	7,752	5,015	8,220	20,439	18,343	22,532
Others	-836	-366	-696	-414	-6,052	0	0
CF from Operating incl EO	2,077	7,386	4,319	7,806	14,387	18,343	22,532
(Inc)/Dec in FA	-14,606	-7,417	-6,903	-12,271	-13,138	-13,563	-8,425
Free Cash Flow	-12,529	-30	-2,583	-4,465	1,249	4,781	14,107
(Pur)/Sale of Investments	1,508	3,115	-3,008	-17,417	0	0	0
Others	2,009	684	409	1,277	1,163	1,047	1,306
CF from Investments	-11,090	-3,618	-9,502	-28,412	-11,975	-12,516	-7,119
Issue of Shares	49	46	10,907	96	0	0	0
Inc/(Dec) in Debt	5,301	647	-2,458	-805	2,772	-5,000	-10,000
Interest Paid	-3,329	-3,025	-3,680	-2,795	-3,412	-3,408	-2,770
Dividend Paid	-480	-556	-3	-174	-428	-482	-536
Others	8,986	18	451	25,954	6,124	6,319	4,128
CF from Fin. Activity	10,527	-2,871	5,217	22,276	5,055	-2,571	-9,178
Inc/Dec of Cash	1,514	898	35	1,670	7,468	3,256	6,235
Opening Balance	406	396	1,293	1,328	2,998	10,465	13,722
Closing Balance	1,920	1,293	1,328	2,998	10,465	13,722	19,956

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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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