

Company Update

The Phoenix Mills Ltd

Bloomberg Code: PHNX IN

India Research - Stock Broking

BUY

Steady Performance Across Malls; Capex Activity on Track

PHNX's revenue grew 66%/64% YoY/QoQ to Rs. 7233 Mn. The significant growth in revenue was on account of revenue recognition from the company's residential project "Kessaku" which has received OC in Q4FY19. EBITDA margins expanded by 260 bps YoY and 160 bps QoQ to 52.1%. In FY19, Total consumption and rental income at its retail malls grew by 9% and 14% YoY respectively. MarketCity Pune and Mumbai recorded robust consumption growth rate of 13% & 17% respectively. HSP Mumbai, MarketCity Chennai and Bengaluru experienced muted consumption growth during the year. At the end of the quarter, total debt stood at Rs. 45.4 Bn and cost of debt increased 15 bps to 9.38%. Management has indicated that the Lucknow mall will become operational from Q2FY20. Higher renewal schedule at its 5 core mall will drive rental income over next two years.

Rental income growth driven by higher trading occupancy across Malls:

In Q4FY19, PMC Mumbai and PMC Pune outperformed in terms of rental income by recording a growth rate of 10% & 13% YoY respectively. Trading occupancy at PMC Mumbai and PMC Pune stood at 98% & 98% against 93% & 95% in Q4FY18. Trading occupancy at HSP Mumbai remained at same level (94%) while it increased to 98% at PMC Bengaluru & PMC Chennai from 96% & 95% respectively.

Hotel Income increased driven by higher occupancy rate: Revenue from Room at St. Regis, Mumbai increased 8% driven by higher occupancy. The occupancy rate in Q4FY19 increased by 4 pps and reached 87% compared to 83% in Q4FY18. Average Room Rate (ARR) increased 4% YoY and EBITDA margins expanded by 2 pps YoY.

Net debt-to-equity decreased YoY but will increase moving forward: The company's net debt-to-equity ratio decreased to 1.1 in Q4FY19 from 1.3 in Q4FY18. However, management has informed that the equity portion for ongoing capex is utilized and major part of funds required to complete the capex will come from debt.

Outlook & Valuation

As India's largest mall owners and operators, the Phoenix Mills Ltd is evolving into a trusted proxy for the consumption trends of India's urban middle class. PHNX remains India's largest retail mall developer and operator and the CPPIB deal will help it achieve the next leg of growth. We retain "BUY" rating on the stock with a TP of Rs. 735/share.

Exhibit 1: Valuation Summary

| YE Mar (Rs. Mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|-------------------|-------|-------|-------|-------|-------|
| Net Sales | 18246 | 16198 | 19816 | 20476 | 21757 |
| EBITDA | 8469 | 7774 | 9931 | 9931 | 10552 |
| EBITDA Margin (%) | 46.4 | 48.0 | 50.1 | 48.5 | 48.5 |
| Net Profit | 1679 | 2422 | 4970 | 3551 | 4102 |
| EPS (Rs.) | 11.0 | 15.8 | 32.5 | 23.2 | 26.8 |
| RoE (%) | 7.8 | 8.5 | 14.3 | 9.1 | 9.6 |
| PE (x) | 34.5 | 37.4 | 18.5 | 25.9 | 22.4 |

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19 are based on historic market price

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Recommendation (Rs.)

| | |
|--------------------------|-----|
| CMP (as on May 20, 2019) | 601 |
| Target Price | 735 |
| Previous Target Price | 735 |
| Upside (%) | 22 |

Stock Information

| | |
|------------------------------|---------------|
| Mkt Cap (Rs.mn/US\$ mn) | 92206 / 1325 |
| 52-wk High/Low (Rs.) | 732 / 489 |
| 3M Avg. daily value (Rs. mn) | 30.1 |
| Beta (x) | 0.6 |
| Sensex/Nifty | 39353 / 11828 |
| O/S Shares(mn) | 153.3 |
| Face Value (Rs.) | 2.0 |

Shareholding Pattern (%)

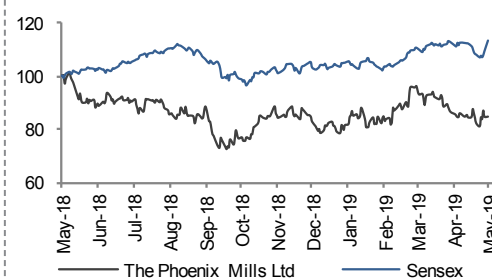
| | |
|-----------|------|
| Promoters | 62.8 |
| FII's | 26.4 |
| DII's | 6.5 |
| Others | 4.4 |

Stock Performance (%)

| | 1M | 3M | 6M | 12M |
|--------------------|-----|-----|------|------|
| Absolute | (2) | 0 | (1) | (14) |
| Relative to Sensex | (2) | (9) | (11) | (24) |

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

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Exhibit 2: Q4FY19

| (Rs. Mn) | Q4FY19 | Q3FY19 | QoQ (%) | Q4FY18 | YoY (%) |
|-----------------------------|--------|--------|----------|--------|----------|
| Revenue | 7232 | 4404 | 64.2 | 4367 | 65.6 |
| Other Income | 329 | 170 | 93.9 | 145 | 127.1 |
| Expenditure | 4800 | 3619 | 32.6 | 3552 | 35.2 |
| EBITDA | 3771 | 2225 | 69.5 | 2164 | 74.3 |
| Depreciation | 514 | 523 | (1.7) | 513 | 0.2 |
| Interest | 826 | 917 | (9.9) | 836 | (1.3) |
| PBT (Includes Other Income) | 2761 | 955 | 189.2 | 960 | 187.6 |
| Tax | 510 | 175 | 191.5 | 7 | 7,510.4 |
| PAT | 2842 | 816 | 248.3 | 1040 | 173.2 |
| EBITDA Margin (%) | 52.1 | 50.5 | 160 bps | 49.6 | 260 bps |
| EBIT Margin (%) | 43.1 | 37.2 | 580 bps | 36.6 | 650 bps |
| Net Profit Margin (%) | 37.6 | 17.8 | 1970 bps | 23.1 | 1450 bps |

Source: Company, Karvy Research

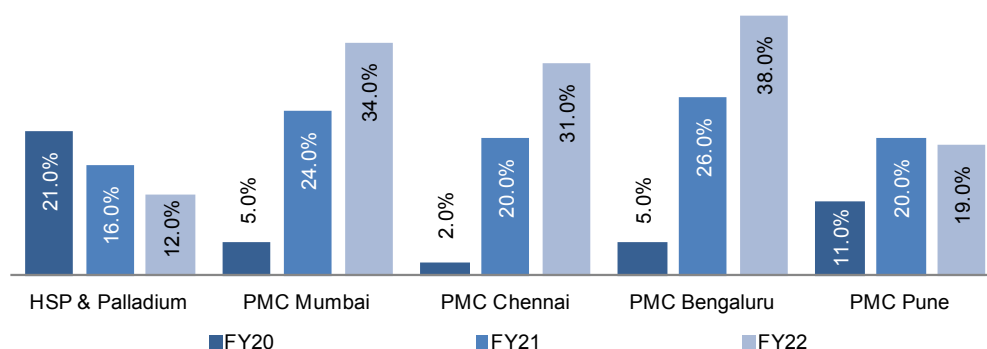
Key takeaways from quarterly earnings call

- **Lucknow Mall:** Construction and fit-outs to be completed by Q1FY20 and the mall will become operational from Q2FY20. Over 75% of area has already been leased and rentals per sft could be ~20% higher than management's initial expectations of Rs. 85.
- Company is expecting cash inflows of ~20 Bn from already sold area at Kessaku and One Bangalore West (OBW) and it requires about Rs. 1.5 Bn to complete Kessaku and 6th tower of OBW.
- Segments such as home accessories, watches & jewellery are driving consumption at its malls (these segments are growing by 20-25%) followed by Electronics (10-12% growth). Hypermarkets along with books & toys have been a bit slow.
- Company will spend ~Rs. 350 Cr on capex in FY20.
- Company is not worried about the competition that is coming up near its Kurla and South Mumbai mall. Kurla mall is far bigger than the new malls being built by competitors and the management believes that South Mumbai catchment area has the capacity to absorb one more mall (Oberoi mall coming up in Worli).
- Company reported exceptional item of INR 480.9 Mn as NCD to Pallazzio Hotel (Series F) was converted to Optionally Convertible Debenture (Series J) which resulted in write back of provisions made for NCD.

Exhibit 3: Update on Under-construction assets

| Project | Partnership / owned | Land Size | Development Potential | Comments |
|-----------------------|---|------------|------------------------|---|
| PMC Wakad, Pune | ISML – alliance with CPPIB (PML stake: 51%) | 15 Acres | 1.6 msf (1 msf retail) | Excavation commenced on 7th February 2019. Expect operations to commence during FY23. |
| PMC Hebbal, Bengaluru | | 13 Acres | 1.8msf (1 msf retail) | Excavation to commence on February 2019. Expect operations to start during FY23. |
| PMC Indore | | 19 Acres | 1.1 msf retail | Acquired under-construction retail development. Expect operations to commence during FY21. |
| PMC Lucknow | 100% owned | 13.5 Acres | 0.9 msf retail | Acquired under-construction retail development. Expect operations to commence during H2FY20. |
| Palladium, Ahmedabad | 50:50 alliance with BSafal group | 5.2 Acres | 0.6 msf retail | PML's third Palladium mall after Mumbai & Chennai. Excavation commenced in January 2019. Expect operations to commence during FY22. |

Source: Company, Karvy Research

Exhibit 4: Renewal Schedule


Source: Company, Karvy Research

Exhibit 5: Consumption Trend

| | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 |
|---------------|--------|--------|--------|--------|--------|--------|--------|
| HSP Mumbai | 3617 | 4574 | 4057 | 4251 | 4025 | 4755 | 4013 |
| YoY % | (10.0) | 1.0 | 3.0 | 1.0 | 11.0 | 4.0 | (1.0) |
| PMC Chennai | 2706 | 2747 | 2478 | 2857 | 2867 | 2898 | 2446 |
| YoY % | (5.0) | 6.0 | 3.0 | 2.0 | 6.0 | 5.0 | (1.0) |
| PMC Bengaluru | 3030 | 3299 | 2859 | 3100 | 3181 | 3514 | 3048 |
| YoY % | 26.0 | 13.0 | 12.0 | (2.0) | 5.0 | 7.0 | 7.0 |
| PMC Pune | 2495 | 2969 | 2616 | 3045 | 2937 | 3405 | 2820 |
| YoY % | 14.0 | 6.0 | 4.0 | 11.0 | 18.0 | 15.0 | 8.0 |
| PMC Mumbai | 1801 | 2320 | 1970 | 2266 | 2283 | 2654 | 2356 |
| YoY % | 7.0 | 20.0 | 10.0 | 10.0 | 27.0 | 14.0 | 20.0 |

Source: Company, Karvy Research

Exhibit 6: Rental Trend

| | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 |
|---------------|--------|--------|--------|--------|--------|--------|--------|
| HSP Mumbai | 713 | 776 | 803 | 839 | 839 | 886 | 868 |
| YoY % | 1.0 | 3.0 | 13.0 | 15.0 | 18.0 | 14.0 | 8.0 |
| PMC Chennai | 343 | 351 | 357 | 380 | 376 | 388 | 384 |
| YoY % | 5.0 | 15.0 | 5.0 | 11.0 | 10.0 | 11.0 | 8.0 |
| PMC Bengaluru | 311 | 329 | 322 | 339 | 345 | 361 | 347 |
| YoY % | 18.0 | 13.0 | 14.0 | 8.0 | 11.0 | 10.0 | 8.0 |
| PMC Pune | 332 | 357 | 360 | 382 | 385 | 416 | 406 |
| YoY % | 17.0 | 10.0 | 9.0 | 13.0 | 16.0 | 17.0 | 13.0 |
| PMC Mumbai | 271 | 284 | 281 | 295 | 300 | 311 | 310 |
| YoY % | 18.0 | 23.0 | 20.0 | 11.0 | 11.0 | 10.0 | 10.0 |

Source: Company, Karvy Research

Financials

Exhibit 7: Income Statement

| YE Mar (Rs. Mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|-----------------------------|-------|--------|-------|--------|-------|
| Revenues | 18246 | 16198 | 19816 | 20476 | 21757 |
| Growth (%) | 2.5 | (11.2) | 22.3 | 3.3 | 6.3 |
| Operating Expenses | 15960 | 13883 | 15432 | 16406 | 16937 |
| EBITDA | 8469 | 7774 | 9931 | 9931 | 10552 |
| Growth (%) | 7.6 | (8.2) | 27.8 | (0.0) | 6.3 |
| Depreciation & Amortization | 1953 | 1983 | 2042 | 2302 | 2396 |
| EBIT | 6516 | 5791 | 7889 | 7629 | 8156 |
| Other income | 472 | 556 | 851 | 499 | 536 |
| Interest Expenses | 4230 | 3476 | 3506 | 3559 | 3336 |
| PBT | 2758 | 2871 | 5716 | 4569 | 5356 |
| Tax | 858 | 758 | 1099 | 1371 | 1607 |
| Adjusted PAT | 1679 | 2422 | 4970 | 3551 | 4102 |
| Growth (%) | 30.2 | 44.2 | 105.2 | (28.5) | 15.5 |

Source: Company, Karvy Research

Exhibit 8: Balance Sheet

| YE Mar (Rs. Mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|---|--------------|--------------|---------------|---------------|---------------|
| Cash & Cash Equivalents | 641 | 343 | 396 | 604 | 265 |
| Trade receivables | 1470 | 1292 | 1955 | 1638 | 1741 |
| Inventory | 9455 | 6615 | 8986 | 7639 | 7791 |
| Loans & Advances | 429 | 379 | 275 | 289 | 303 |
| Investments | 4096 | 8290 | 7450 | 7922 | 7922 |
| Net Block | 44990 | 57964 | 70449 | 74426 | 77487 |
| Other current assets | 9000 | 10090 | 11647 | 10551 | 10619 |
| Total Assets | 70081 | 84973 | 101159 | 103068 | 106128 |
| Current Liabilities | 8806 | 13072 | 12529 | 12463 | 11262 |
| Debt | 33542 | 34509 | 39810 | 37310 | 38003 |
| Other Liabilities | 3436 | 4214 | 1846 | 1829 | 1847 |
| Total Liabilities | 45784 | 51795 | 54185 | 51603 | 51112 |
| Shareholders Equity | 306 | 306 | 307 | 307 | 307 |
| Reserves & Surplus | 21194 | 28211 | 34435 | 38925 | 42476 |
| Total Networth | 21501 | 28517 | 34741 | 39232 | 42783 |
| Non Controlling Interest | 2797 | 4661 | 12233 | 12233 | 12233 |
| Total Networth & Liabilities | 70081 | 84973 | 101159 | 103068 | 106128 |

Source: Company, Karvy Research

Exhibit 9: Cash Flow Statement

| YE Mar (Rs. Mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|--|----------------|----------------|----------------|---------------|---------------|
| PBT | 2758 | 2871 | 5716 | 4569 | 5356 |
| Depreciation | 1953 | 1983 | 2042 | 2302 | 2396 |
| Net Interest flow | 3909 | 3308 | 3506 | 3559 | 3336 |
| Tax Paid | (438) | (208) | (1099) | (1371) | (1607) |
| Inc/dec in Net WC | 5904 | 7455 | (335) | 2093 | (117) |
| Others | 102 | (232) | (801) | (449) | (486) |
| Cash flow from operating activities | 14189 | 15177 | 9029 | 10704 | 8878 |
| Inc/dec in capital expenditure | (1847) | (15015) | (12485) | (6513) | (5458) |
| Inc/dec in investments | (1977) | (3361) | (7243) | 0 | 0 |
| Others | 288 | 127 | 127 | 127 | 127 |
| Cash flow from investing activities | (3536) | (18249) | (19600) | (6385) | (5330) |
| Inc/dec in borrowings | (6676) | 6732 | 14681 | 0 | 0 |
| Dividend paid | (83) | (442) | (551) | (551) | (551) |
| Interest paid | (4321) | (3516) | (3506) | (3559) | (3336) |
| Cash flow from financing activities | (11080) | 2774 | 10624 | (4110) | (3887) |
| Net change in cash | (427) | (298) | 52 | 208 | (339) |

Source: Company, Karvy Research

Exhibit 10: Key Ratios

| YE Mar | FY17 | FY18 | FY19 | FY20E | FY21E |
|---------------------------|------|------|------|-------|-------|
| EBITDA Margin (%) | 46.4 | 48.0 | 50.1 | 48.5 | 48.5 |
| EBIT Margin (%) | 35.7 | 35.8 | 39.8 | 37.3 | 37.5 |
| Net Profit Margin (%) | 9.0 | 14.5 | 24.0 | 16.9 | 18.4 |
| Dividend Payout Ratio (%) | 21.9 | 16.4 | 16.9 | 12.9 | 12.9 |
| Net Debt/Equity (x) | 1.5 | 1.2 | 1.1 | 0.9 | 0.9 |
| RoE (%) | 7.8 | 8.5 | 14.3 | 9.1 | 9.6 |
| RoCE (%) | 10.6 | 8.1 | 8.9 | 8.4 | 8.6 |

Source: Company, Karvy Research

Exhibit 11: Valuation Parameters

| YE Mar | FY17 | FY18 | FY19 | FY20E | FY21E |
|---------------|-------|-------|-------|-------|-------|
| EPS (Rs.) | 11.0 | 15.8 | 32.5 | 23.2 | 26.8 |
| DPS (Rs.) | 2.4 | 2.6 | 2.6 | 2.6 | 2.6 |
| BVPS (Rs.) | 140.5 | 186.2 | 226.9 | 256.2 | 279.4 |
| PE (x) | 34.5 | 37.4 | 18.5 | 25.9 | 22.4 |
| P/BV (x) | 2.7 | 3.2 | 2.7 | 2.3 | 2.2 |
| EV/EBITDA (x) | 11.4 | 16.5 | 13.3 | 13.0 | 12.3 |
| EV/Sales (x) | 5.6 | 8.3 | 6.6 | 6.3 | 6.0 |

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19 are based on historic market price

| Stock Ratings | Absolute Returns |
|---------------|------------------|
| Buy | : > 15% |
| Hold | : 5-15% |
| Sell | : < 5% |

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