

Stable results, impressive show by retail and commercial portfolio, while residential was the only drag due to overall slowdown; Maintain Buy with a target price of Rs 986

Current	Previous
CMP: Rs 725	
Rating: Buy	Rating: Buy
Target: Rs 986	Target: Rs 986

(CMP as on November 13, 2019)

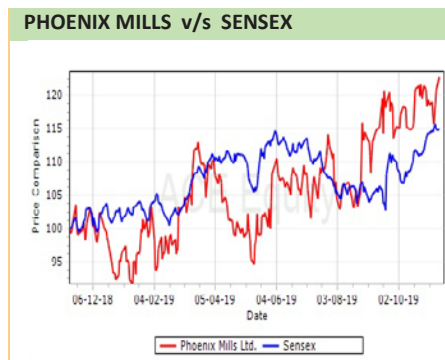
Stock Info	
INDEX	
BSE	503100
NSE	PHOENIXLTD
Bloomberg	PHNX IN
Reuters	PHOE.BO
Sector	Real Estate
Face Value (Rs)	2
Equity Capital (Rs Mn)	307
Market Cap (Rs Mn)	111,170
52w H/L (Rs)	767 /552
Avg Weekly Vol (BSE+NSE)	422,940

Shareholding Pattern	%
(As on Sept, 2019)	
Promoters	59.2
Public & Others	40.8

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
PHOENIX MILLS	15.3	28.3	23.9
SENSEX	7.3	7.7	14.7

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Monami Manna

Sr. Research Analyst

Tel: +91 22 42254817

monami.manna@arihantcapital.com

The Phoenix Mills Ltd (PML) came out with stable set of results in Q2FY20, though the results were below our estimate. Consolidated revenue for the quarter grew 2.6% YoY/-32.5% QoQ to Rs 4,151 mn, below our estimate of Rs 5,015mn. EBITDA for Q2FY20 stood at Rs 2,108 mn, slightly below our estimate of Rs 2,257 mn, registering a growth of 6.3% YoY/-28% QoQ. EBITDA margin expanded 181bps YoY/318bps QoQ to 50.8% beating our estimate of 45%. Consolidated PAT for the quarter stood at Rs 658 mn, below our estimate of Rs 1,003 mn, due to higher tax outgo, thereby registering a growth of 6% YoY/-49.5% QoQ. We are bullish on PML due to its strong free cash flow generation and stable annuity income. After factoring in stable results despite overall slowdown in the realty sector, we maintain our Buy rating on the stock with TP of Rs 986 (unchanged).

Q2FY20 Highlights

- **Retail Portfolio:** Despite overall slump in the economy, PML's retail portfolio shown steady performance with retail consumption growing by 1% YoY/-5% QoQ to Rs 16,948 mn, while rental income witnessed stable growth of 7% YoY/-1% QoQ to Rs 2,594 mn. Retail EBITDA for Q2FY20 stood at Rs 2,468 mn, a growth of 10% YoY. PMC Mumbai, PMC Pune and PMC Bangalore were the top performing retail assets demonstrating strong consumption and rental income growth in Q2FY20.
- **Commercial Portfolio:** PML saw robust performance by its commercial portfolio with 64% YoY growth in income at Rs 510 mn in H1FY20. Paragon Plaza and Fountainhead Tower were key contributors due to increased occupancy during H1FY20.
- **Residential Portfolio:** The only drag during the quarter for PML was its residential portfolio which saw muted performance due to tepid residential sales volume. PML's premium residential projects like Kessaku reported nil sales volume while One Bangalore West - Tower 6 saw some cancellation during Q2FY20. Though newly launched Tower 7 of One Bangalore West (launched in July'19) saw 30,000 sq. ft. sales (13 units).

Valuations

We have valued PML using DCF method, and have discounted PML's cash flows at WACC of 10.4% till FY25E and calculated its terminal value beyond that assuming terminal growth rate of 3%. Our DCF method yields a NAV of Rs 986/share for PML. After factoring in stable Q2FY20 results, we maintain our Buy rating on PML with a target price of Rs 986 per share (unchanged).

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	16,199	7,777	2,424	15.8	48.0	8.5	45.8
FY19	19,816	9,931	4,210	27.5	50.1	12.2	26.4
FY20E	21,806	11,121	4,442	29.0	51.0	12.0	25.0
FY21E	24,031	12,328	5,277	34.4	51.3	13.5	21.1

Source: Company, Arihant Research

Q2FY20 and H1FY20 Financial Performance

Rs Mn (consolidated)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
Net Revenue	4,151	6,150	4,047	-32.5%	2.6%	10,301	8,179	25.9%
Raw Material Cost	543	1,808	621	-70.0%	-12.6%	2,351	1,355	73.5%
Employee cost	398	382	397	4.3%	0.5%	780	781	-0.1%
Other Expenses	1,102	1,033	1,048	6.7%	5.1%	2,134	2,108	1.3%
EBITDA	2,108	2,927	1,982	-28.0%	6.3%	5,035	3,935	27.9%
EBITDA margin %	50.8%	47.6%	49.0%	+318bps	+181bps	48.9%	48.1%	+77bps
Other Income	195	154	183	26.5%	6.5%	348	353	-1.2%
Depreciation	509	507	506	0.5%	0.6%	1,016	1,005	1.1%
EBIT	1,793	2,574	1,658	-30.4%	8.1%	4,367	3,282	33.0%
Finance cost	878	871	917	0.7%	-4.3%	1,749	1,763	-0.8%
Exceptional Item	78	-	-			78	-	
PBT	993	1,703	741	-41.7%	34.0%	2,696	1,519	77.5%
Tax Expense	350	234	178	49.5%	96.3%	584	414	41.2%
Effective tax rate %	35.3%	13.8%	24.1%	+2152bps	+1119bps	21.7%	27.2%	-557bps
PAT	643	1,469	562	-56.2%	14.3%	2,111	1,105	91.1%
MI & Associates	15	-165	58	-	-	-150	113	
Consolidated PAT	658	1,304	621	-49.5%	6.0%	1,962	1,218	61.1%
PAT margin %	15.5%	23.9%	13.9%	-840bps	+159bps	20.5%	13.5%	+698bps
EPS (Rs)	4.3	8.5	4.1	-49.5%	5.9%	13.8	7.2	91.1%

Source: Company, Arihant Research

Post Result Conference Call Highlights

- PML witnessed robust sales in its retail and commercial portfolio in the month of October due to diwali festival and compared to last year diwali, this year was far better in terms of performance.
- Cumulative area sold decreased due to some accounting factor, as the company considered only registered agreements for its area sold and not all sales.
- PML witnessed good consumption growth despite overall slowdown and going forward the company expects 7-8% growth in consumption for FY20E.
- Consumption growth was good for PML due to increase in consumers count rather than offering any discount, for PML discount was same as last year.
- For rental income PML is hoping to see 10-11% growth going forward.
- Full year of rental income is expected from its Lucknow mall in FY21E.
- In retail portfolio PML will spend total amount of Rs 8150 mn in FY20E.
- As far as hospitality portfolio is concerned, St. Regis witnessed flat growth during the quarter, however if group booking is measured then for PML group booking for its hospitality portfolio was higher than competition.

Consolidated Financials

Income Statement

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	18,246	16,199	19,816	21,806	24,031
<i>Change (%)</i>	2.5%	-11.2%	22.3%	10.0%	10.2%
Raw materials	2,827	1,769	4,609	2,290	2,571
Stock Adjustments	-361	-450	-2,420	0	0
Employee costs	1,403	1,473	1,615	1,854	2,043
Other expenses	5,908	5,630	6,080	6,542	7,089
Total Expenses	9,777	8,422	9,884	10,685	11,703
EBITDA	8,469	7,777	9,931	11,121	12,328
Other Income	472	556	851	872	961
Depreciation	1,953	1,983	2,042	2,089	2,109
Interest	4,230	3,476	3,506	3,673	3,763
PBT	2,758	2,874	5,235	6,232	7,417
Extra-ordinary	0	0	-481	0	0
PBT after ext-ord.	2,758	2,874	5,716	6,232	7,417
Tax	858	758	1,099	1,433	1,854
<i>Rate (%)</i>	31.1%	26.4%	19.2%	23.0%	25.0%
PAT	1,900	2,116	4,617	4,798	5,563
MI & Associates	-221	308	-407	-356	-286
Consolidated PAT	1,679	2,424	4,210	4,442	5,277
<i>Change (%)</i>	30.2%	44.3%	73.7%	5.5%	18.8%

Source: Company, Arianth Research

Balance Sheet

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Share Capital	306	306	307	307	307
Reserves & Surplus	21,161	28,118	34,297	36,710	38,781
Net Worth	21,467	28,424	34,604	37,016	39,087
Loan Funds	33,542	34,509	39,810	40,810	41,810
Deferred Tax & other liabilities	2,993	1,898	1,763	1,763	1,763
Capital Employed	60,799	69,492	88,409	91,822	94,894
Application of Funds					
Gross Block	53,377	66,937	77,363	84,363	89,363
Less: Accumulated Depreciation	8,400	10,356	12,277	14,366	16,475
Net Block	44,978	56,580	65,086	69,997	72,888
CWIP	2,952	5,025	8,963	8,963	8,963
Other non current assets	1,484	949	1,046	1,046	1,046
Deferred tax assets	1,252	1,392	1,386	1,386	1,386
Net fixed assets	50,665	63,947	76,481	81,392	84,283
Investments	4,096	8,290	7,450	7,450	7,450
Debtors	1,470	1,292	1,955	2,091	2,304
Inventories	9,455	6,615	8,986	9,410	10,567
Cash & bank balance	812	406	1,920	2,286	2,132
Loans & advances & other CA	3,560	4,327	4,225	4,779	5,267
Total current assets	15,297	12,640	17,087	18,565	20,271
Current liabilities	8,417	14,340	11,958	14,936	16,459
Provisions	843	1,045	651	651	651
Net current assets	6,037	-2,745	4,478	2,979	3,161
Total Assets	60,798	69,492	88,409	91,822	94,894

Source: Company, Arianth Research

Cash Flow Statement

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	2,758	2,874	5,716	6,232	7,417
Depreciation	1,953	1,983	2,042	2,089	2,109
Interest & others	3,538	3,227	2,248	2,444	2,516
Cash flow before WC changes	8,248	8,084	10,006	10,765	12,042
(Inc)/dec in working capital	5,904	8,376	-5,710	1,865	-335
Operating CF after WC changes	14,153	16,460	4,296	12,630	11,707
Less: Taxes	-858	-758	-1,099	-1,433	-1,854
Operating cash flow	13,295	15,702	3,197	11,196	9,853
(Inc)/dec in F.A + CWIP	-1,847	-13,289	-12,532	-7,000	-5,000
(Pur)/sale of investment	-2,429	-4,194	840	0	0
Cash flow from investing	-4,276	-17,483	-11,692	-7,000	-5,000
Free cash flow (FCF)	11,448	2,020	-9,244	4,196	4,853
Loan raised/(repaid)	-2,735	967	5,301	1,000	1,000
Equity raised	22	0	0	0	0
Interest & others	-6,479	849	5,188	-4,263	-5,393
Dividend	-83	-442	-480	-567	-613
Cash flow from financing activities	-9,276	1,375	10,009	-3,830	-5,006
Net inc /(dec) in cash	-256	-406	1,514	366	-153
Opening balance of cash	1,068	812	406	1,920	2,286
Closing balance of cash	812	406	1,920	2,286	2,132

Source: Company, Arianth Research

Key Ratios

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	11.0	15.8	27.5	29.0	34.4
CEPS	23.7	28.8	40.8	42.6	48.2
BVPS	140.2	185.6	225.7	241.4	254.9
DPS	0.5	2.9	3.1	3.7	4.0
Payout (%)	4.9%	18.2%	11.4%	12.8%	11.6%
Valuation (x)					
P/E	66.1	45.8	26.4	25.0	21.1
P/CEPS	30.6	25.2	17.8	17.0	15.1
P/BV	5.2	3.9	3.2	3.0	2.8
EV/EBITDA	17.0	18.7	15.0	13.5	12.2
Dividend Yield (%)	0.1%	0.4%	0.4%	0.5%	0.6%
Return Ratio (%)					
EBIDTA Margin	46.4%	48.0%	50.1%	51.0%	51.3%
PAT Margin	9.2%	15.0%	21.2%	20.4%	22.0%
ROE	7.8%	8.5%	12.2%	12.0%	13.5%
ROCE	10.7%	8.3%	8.9%	9.8%	10.8%
Leverage Ratio (%)					
Total D/E	1.6	1.2	1.2	1.1	1.1
Net D/E	1.5	1.2	1.1	1.0	1.0
Turnover Ratios					
Asset Turnover (x)	0.3	0.2	0.2	0.2	0.3
Inventory Days	1399	1830	1498	1500	1500
Receivable Days	29	29	36	35	35
Payable days	185	347	232	250	250

Source: Company, Arianth Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park ,
 Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E).
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 E-5 RatlamKothi
 Indore - 452003, (M.P.)
 Tel: (91-731) 3016100
 Fax: (91-731) 3016199

Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research**Analyst****Contact****Website****Email Id****Registration No.**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.comresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road Chakala, Andheri (E)
 Tel. 022-42254800 Fax. 022-42254880