

**Better performance from residential segment;
prime property inventory to lead future growth**

CMP: Rs 877

Rating: ACCUMULATE

Target Price: Rs 986

Stock Info

BSE	503100
NSE	PHOENIXLTD
Bloomberg	PHNX IN
Reuters	PHOE.BO
Sector	Real Estate
Face Value (Rs)	2
Equity Capital (Rs mn)	307
Mkt Cap (Rs mn)	136,648
52w H/L (Rs)	913 / 565
Avg Yearly Vol (in 000')	99.5

Shareholding Pattern %

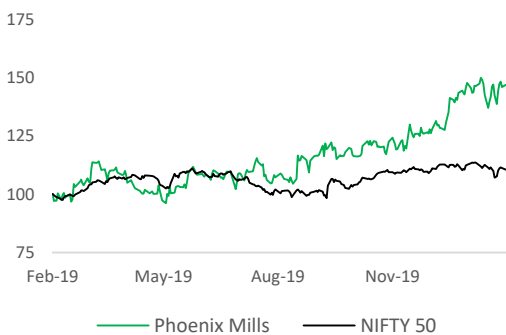
(As on Dec, 2019)

Promoters	59.14
FII	27.53
DII	9.18
Public & Others	4.15

Stock Performance (%)

	3m	6m	12m
Phoenix Mills	19.9	36.8	49.9
Nifty	1.0	10.1	10.5

Phoenix Mills Vs Nifty



The Phoenix Mills Ltd (PML) came out with Q3FY20 earnings in line with our estimates. Consolidated revenue for the quarter grew 16.2% YoY/23.3% QoQ to Rs 5,118 mn. EBITDA for Q3FY20 stood at Rs 2,593 mn, beating our estimates and registering a growth of 16.6% YoY/23% QoQ. EBITDA margin expanded 16bps YoY/-11bps QoQ to 50.7%. Consolidated PAT for the quarter stood at Rs 919 mn, thereby registering a growth of 29.8% YoY/39.6% 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 change rating on the stock to ACCUMULATE maintaining TP of Rs 986 (unchanged).

Q3FY20 Highlights

Retail Portfolio: Despite overall slump in the economy, PML's retail portfolio shown steady performance with retail consumption growing by 10% YoY to Rs 20,672 mn, while rental income witnessed stable growth of 8% YoY to Rs 2,777 mn. Retail EBITDA for Q3FY20 stood at Rs 2,616 mn, a growth of 6% YoY. HSP & Palladium, PMC Bangalore, PMC Pune and PMC Mumbai were the top performing retail assets demonstrating strong consumption and rental income growth in Q3FY20.

Commercial Portfolio: PML saw robust performance by its commercial portfolio with 64% YoY growth in income at Rs 2,547 mn in Q3FY20. Paragon Plaza and Fountainhead Tower were key contributors due to increased occupancy during Q3FY20.

Residential Portfolio: The residential portfolio for PML performed enormously with revenue of Rs 481 mn in Q3FY20. PML's premium residential projects like Kessaku sold half the area launched for sale while One Bangalore West sold 80% of the area launched for sale. Though, of the residential projects, there is One Bangalore Tower 8 & 9, under the planning stage with 0.48 million square feet area.

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 robust Q3FY20 results, **we change our rating on PML to ACCUMULATE maintaining target price of Rs 986 per share (unchanged).**

Consol. (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: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3 FY20 - Quarterly Performance (Consolidated)

Particulars (Rs Mn)	Q3FY20	Q2FY20	Q3FY19	Q-o-Q	Y-o-Y	9MFY20	9MFY19	Y-o-Y
Net Revenue	5,118	4,151	4,404	23.3%	16.2%	15,419	12,583	22.5%
Raw Material Cost	713	543	616	31.4%	15.9%	3,064	1,971	55.5%
Employee cost	521	398	459	30.8%	13.5%	1,302	1,241	4.9%
Other Expenses	1,290	1,102	1,105	17.1%	16.8%	3,425	3,212	6.6%
EBITDA	2,593	2,108	2,225	23.0%	16.6%	7,628	6,160	23.8%
EBITDA margin %	50.7%	50.8%	50.5%	-11bps	16bps	49.5%	49.0%	52bps
Other Income	133	195	170	-31.8%	-21.8%	481	522	-7.9%
Depreciation	514	509	523	1.0%	-1.6%	1,531	1,528	0.2%
EBIT	2,212	1,793	1,871	23.4%	18.2%	6,579	5,154	27.6%
Finance cost	889	878	917	1.3%	-3.1%	2,638	2,680	-1.6%
Exceptional Item	-	78	-			78	-	
PBT	1,323	993	954	33.2%	38.6%	4,018	2,474	62.4%
Tax Expense	358	350	175	2.2%	104.5%	942	589	60.0%
Effective tax rate %	27.0%	35.3%	18.3%	-822bps	871bps	23.4%	23.8%	-36bps
PAT	965	643	779	50.1%	23.8%	3,076	1,885	63.2%
MI & Associates	-46	15	-72	-	-	-196	41	
Consolidated PAT	919	658	708	39.6%	29.8%	2,880	1,926	49.5%
<i>PAT margin %</i>	<i>18.9%</i>	<i>15.5%</i>	<i>17.7%</i>	<i>337bps</i>	<i>116bps</i>	<i>20.0%</i>	<i>15.0%</i>	<i>497bps</i>
EPS (Rs)	6.0	4.3	4.6	39.6%	29.7%	18.8	12.6	49.4%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Concall Highlights

- The management admitted of positive outlook on the extension of timings for some key malls in Mumbai remaining open in the future. However, the realtor did express high hopes of liquor licenses also being extended beyond 1.30 pm.
- The management mentioned that the government will be doing some thing for the REIT listing in the future as the Dividend Distribution Tax nullifies any earlier work done by government that would promote REIT's listings. Also, the management said that the company has no plans for an REIT listing in the recent future.
- The management mentioned of around a million odd square feet of prime property in Bangalore with carrying cost of around 10% per year. However, based on the sales in Nov & Dec 2019, the management expects sales to pick up in the future.
- The company stated that the consumption in Jan is 8-10% higher than last year corresponding month.
- The company is starting Pune Fountainhead Tower 2 & 3 which will be completed in the next couple of quarters.
- In Lucknow, the company expects to get the first come advantage with better brand mix in their Pallasio mall against rival Lulu's mall which will take sometime to come.
- The F&B income grew by 7% for the quarter, which as per the company is a healthy rate of growth considering the low base in recent years.

Key Financials

Profit & Loss Statement

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

Cash Flow Statement

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

Balance Sheet

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

Key Ratios

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
Per share (Rs)				
EPS	15.8	27.5	29.0	34.4
CEPS	28.8	40.8	42.6	48.2
BVPS	185.6	225.7	241.4	254.9
DPS	2.9	3.1	3.7	4.0
Payout (%)	18.2%	11.4%	12.8%	11.6%
Valuation (x)				
P/E	55.8	32.2	30.5	25.7
P/CEPS	30.7	21.7	20.8	18.3
P/BV	4.8	3.9	3.7	3.5
EV/EBITDA	18.7	15.0	13.5	12.2
Dividend Yield (%)	0.3%	0.4%	0.4%	0.5%
Return Ratio (%)				
EBIDTA Margin	48.0%	50.1%	51.0%	51.3%
PAT Margin	15.0%	21.2%	20.4%	22.0%
ROE	8.5%	12.2%	12.0%	13.5%
ROCE	8.3%	8.9%	9.8%	10.8%
Leverage Ratio (%)				
Total D/E	1.2	1.2	1.1	1.1
Net D/E	1.2	1.1	1.0	1.0
Turnover Ratios				
Asset Turnover (x)	0.2	0.2	0.2	0.3
Inventory Days	1830	1498	1500	1500
Receivable Days	29	36	35	35
Payable days	347	232	250	250

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale

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

Absolute Return**Research Analyst
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