

Phoenix Mills

17 May 2019

Reuters: PHOE.NS; Bloomberg: PHNX IN

Strong Residential Sales And Cost Optimisation Drives Earnings

Phoenix Mills (PML) reported a net profit of Rs2,284mn in 4QFY19, up 146% YoY and 223% QoQ. In 4QFY19, the revenues increased 64% and 66% QoQ and YoY, respectively. The sharp upswing in revenues is because of: 1) Increase in residential revenues by 481% in 4QFY19, on account of recognition of revenues from Phoenix Kessaku project in Bengaluru. 2) Increase in commercial revenues by 35% YoY. 3) In 4QFY19, retail rental income at Rs2,908mn was up 8% YoY, driven by Phoenix Market City or PMC - Kurla and Pune. 4) St. Regis reported total revenues of Rs875mn, up 12% YoY, on the back of improved occupancy rate of 87% and ARR of Rs12,514. Earnings growth of PML was primarily driven by: 1) Decline in employee benefit expenses. 2) Decline in finance costs. We have retained Buy rating on PML with an unchanged target price of Rs791.

Revenues increase and EBITDA margin expands YoY: Revenues in 4QFY19 stood at Rs7,232mn, up 64.2% QoQ and 65.6% YoY. EBITDA at Rs3,771mn increased 74.3% YoY and 69.5% QoQ. EBITDA margin rose 260bps YoY and 160bps QoQ to 52.1%. Revenues and EBITDA growth on YoY basis was because of: 1) The Phoenix Kessaku project in Bengaluru receiving occupation certificate in 4QFY19, as a result of which the revenues and costs relating to the property were recognised on a completion basis. Commercial rental income at Rs244mn in 4QFY19 grew 35% on YoY basis. EBITDA margin of Phoenix Paragon Plaza rose to 79% from 42% in 4QFY19. 2) In 4QFY19, EBITDA of St. Regis increased 16% YoY and EBITDA margin rose 200bps YoY to 45%.

Earnings up YoY supported by lower employee expenses and finance costs: For 4QFY19, employee costs stood at Rs374mn, down 19% QoQ, and finance costs stood at Rs826mn, down 10% QoQ and 1% YoY.

Decline in net debt-to-equity ratio to 1.1x is not sustainable: Net debt-to-equity ratio declined to 1.1x in 4QFY19 from 1.3x in 4QFY18. However, we believe the net debt-to-equity ratio will increase as the management gave guidance that the equity component in construction expenses for upcoming projects except PMC Indore has already been utilised and a major portion of the future construction costs will be met by raising additional debt.

Rental income growth driven by rise in occupancy and rental rates: PMC Pune and PMC Kurla are the malls that have outperformed, leading to 8% YoY growth in total rental income to Rs2,908mn in 4QFY19. PMC Kurla witnessed rental income growth of 10% YoY at Rs310mn. Occupancy rate rose from 93% in 4QFY18 to 98% in 4QFY19. PMC Pune's rental income at Rs406mn increased 13% YoY led by a 10% increase in rental rate and the rise in occupancy rate by 300bps to 98%. The rental income of HSP, PMC Bengaluru, and PMC, Chennai, rose 8% each and their occupancy rate stood at 94%, 98% and 98% respectively. Palladium Chennai commenced operations in FY19. The rental income in 4QFY19 stood at Rs54mn with an occupancy rate of 81%. Going forward, retail rental growth is expected to be driven by: 1) 21% of rental renewals in HSP taking place in FY20E. 2) Strong consumption growth in PMC Kurla supporting better rental renewals in FY21. 3) PMC Lucknow is expected to begin operations in the next few quarters.

Hotel segment income increases on the back of healthy occupancy rate and a rise in ARR: Occupancy rate of Courtyard Marriot, Agra, touched 83% in 4QFY19 as compared to 77% in 4QFY18 and ARR rose to Rs4,795, up 2% YoY. F&B revenues increased 10% YoY. St. Regis reported above-industry occupancy rate of 87% and ARR of Rs12,514, up 4% YoY. Food and beverage business revenues grew 25% YoY to Rs438mn and were higher than room rental revenues in 4QFY19.

Retain Buy rating with a target price of Rs791: Our target price of Rs791 for PML is based on FY21E SOTP valuation. We have valued retail, residential and office properties of PML based on FY21E NAV and the hotel business has been valued through the discounted cash flow method. Further, our optimism is supported by: 1) Anticipated continued strong growth in rental revenues of operational malls. 2) Steady growth in office space rentals. 3) Strong growth in hotels because of cyclical upturn of the sector. PML stock currently trades at Rs605, at a discount of 24% from our unchanged target price of Rs791. We shall be revisiting our estimates shortly.

BUY

Sector: Real Estate

CMP: Rs623

Target Price: Rs791

Upside: 27%

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Key Data

Current Shares O/S (mn)	153.3
Mkt Cap (Rsbn/US\$bn)	94.5/1.3
52 Wk H / L (Rs)	732/489
Daily Vol. (3M NSE Avg.)	105,864

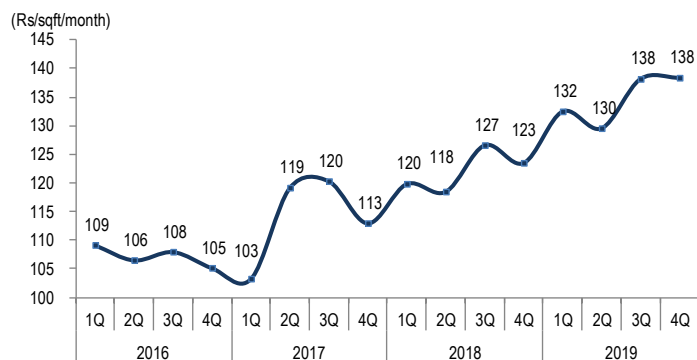
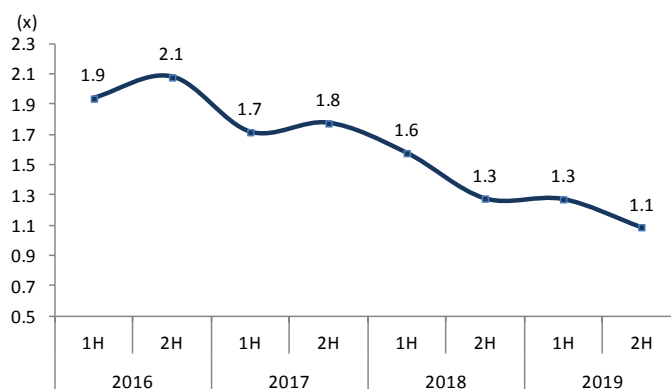
Price Performance (%)

	1 M	6 M	1 Yr
Phoenix Mills	(1.6)	1.5	(9.9)
Nifty Index	(4.5)	5.4	4.8

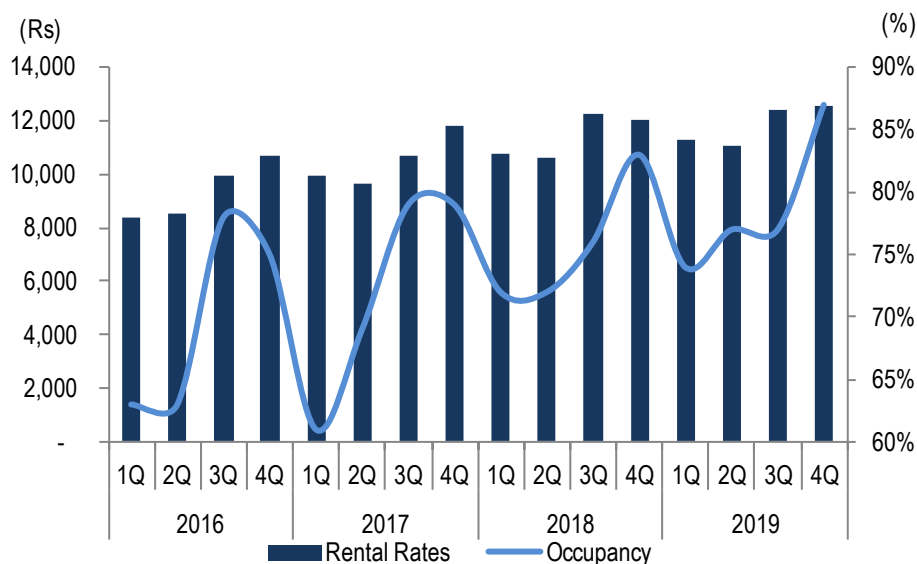
Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY19	QoQ (%)	4QFY18	YoY (%)	4QFY19E	Var (%)
Net sales	7,232	4,404	64.2	4,366	65.6	4,584	57.8
Cost of goods	(1,860)	(616)	202.1	(777)	139.3	(622)	199.1
Employee benefits exp.	(374)	(459)	(18.5)	(357)	4.9	(465)	(19.5)
Other expenses	(1,227)	(1,105)	11.1	(1,069)	14.8	(1,118)	9.7
EBITDA	3,771	2,225	69.5	2,163	74.3	2,379	58.5
EBITDAM (%)	52.1	50.5		49.5		51.9	
Depreciation and amortisation	(514)	(523)	(1.7)	(513)	0.2	(533)	(3.7)
EBIT	3,258	1,702	91.4	1,650	97.4	1,846	76.5
EBITM (%)	45.0	38.6		37.8		40.3	
Other income	329	170	93.8	145	126.9	170	93.8
Interest expenses	(826)	(917)	(9.9)	(836)	(1.2)	(917)	(9.9)
Extraordinary/exceptional	481	-		-		-	
Profit before tax	3,242	955	239.5	959	238.0	1,099	195.0
Tax expenses	(510)	(175)	191.5	(7)	7437.9	(363)	40.6
Effective tax rate (%)	16	18		1		33	
PAT	2,732	780	250.3	952	186.8	736	271.1
Minority interest	558	108	418.9	112	399.9	49	1031.1
Reported net profit	2,284	708	222.5	928	146.3	791	188.6
NPM (%)	37.8	16.1		21.2		17.3	

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Average retail rental rate

Exhibit 2: Net debt-to-equity ratio


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: St. Regis – Occupancy rate and ARR


Source: Company, Nirmal Bang Institutional Equities Research

Consolidated financials

Exhibit 4: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	18,246	16,198	19,816	19,833	22,338
Growth YoY (%)	3	(11)	22	13	13
Operating costs	9,777	8,424	9,884	9,966	10,866
EBITDA	8,469	7,774	9,931	9,867	11,472
EBITDA growth (%)	7	(8)	28	16	16
EBITDA margin (%)	46	48	50	50	51
Depreciation	1,953	1,983	2,042	1,983	1,983
EBIT	6,516	5,791	7,889	7,885	9,489
EBIT (%)	6	(11)	36	21	20
Net interest expenses	3,905	3,294	3,506	4,068	4,554
Other income	146	375	851	500	600
Exceptional Items	-	-	481	-	-
Earnings before tax	2,758	2,871	5,716	4,317	5,535
Tax- total	858	758	1,099	1,425	1,827
Rate of tax (%)	31	26	19	33	33
Net profit	1,900	2,113	4,617	2,892	3,709
Less: Minority interest	230	134	760	134	134
Share of profits from associates	10	442	353	478	560
Adjusted net profit	1,679	2,422	4,210	3,237	4,135
EPS	11	16	27	21	27

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	306	306	307	306	306
Reserves and surplus	21,194	28,214	34,435	32,826	36,206
Net worth	21,501	28,520	34,741	33,132	36,512
Loans	36,255	36,665	39,810	48,965	53,665
Minority interest	2,797	4,661	12,233	4,661	4,661
Other Liabilities	2,858	3,501	1,763	4,101	4,401
Deferred tax liability	-	2	3	-	-
Total capital employed	63,410	73,349	88,551	90,860	99,240
Net fixed assets	45,016	57,990	74,187	72,624	79,941
Investments	4,096	8,290	7,450	8,290	8,290
Loans and advances	89	63	63	63	63
Other non-current assets	5,564	6,608	4,080	6,608	6,608
Total non-current assets	54,765	72,951	85,780	87,585	94,902
Trade payables	1,116	1,048	1,479	1,250	1,362
Other liabilities	4,767	9,479	10,500	9,479	9,479
Provisions (current)	788	1,100	630	1,100	1,100
Total current liabilities	6,671	11,627	12,608	11,829	11,941
Inventories	9,455	6,615	8,986	8,396	9,147
Trade Receivables	1,470	1,292	1,955	2,179	2,455
Cash and bank balance	812	449	1,920	861	1,009
Loans and advances	340	316	212	316	316
Others	1,991	2,503	2,306	2,503	2,503
Total current assets	14,068	11,175	15,379	14,256	15,431
Deferred tax assets	1,247	851	-	848	848
Net current assets	7,397	(452)	2,771	2,427	3,490
Total capital employed	63,410	73,349	88,551	90,860	99,240

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Profit after tax	1,679	2,422	4,210	3,237	4,135
Depreciation	1,953	1,983	2,042	1,983	1,983
Other income	(146)	(375)	(851)	(500)	(600)
Working capital changes	5,405	7,486	(1,752)	(1,031)	(915)
Operating cash flow	8,891	11,516	3,649	3,689	4,603
Capital expenditure	(1,504)	(14,956)	(18,239)	(9,300)	(9,300)
Net cash after capex	7,387	(3,440)	(14,590)	(5,611)	(4,697)
Changes in inv./loans and adv.	(8,953)	(6,256)	5,896	-	-
Others	6,080	6,053	(2,524)	-	-
Issue/ (buyback of equity shares)	22	25	2,011	-	-
Proceeds/repayment of borrowing	(4,002)	410	3,145	5,800	4,700
Other income	146	375	851	500	600
Dividend & dividend distribution tax	(83)	(442)	-	(591)	(754)
Change in deferred tax/ sec. dep.	(26)	1,048	(891)	300	300
Change in MI	(1,714)	1,865	7,572	-	-
Cash flow from financing	423	9,332	10,165	6,009	4,846
Total cash generation	(1,143)	(364)	1,470	398	148
Opening cash balance	1,956	812	449	463	861
Closing cash & bank balance	812	449	1,920	861	1,009

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

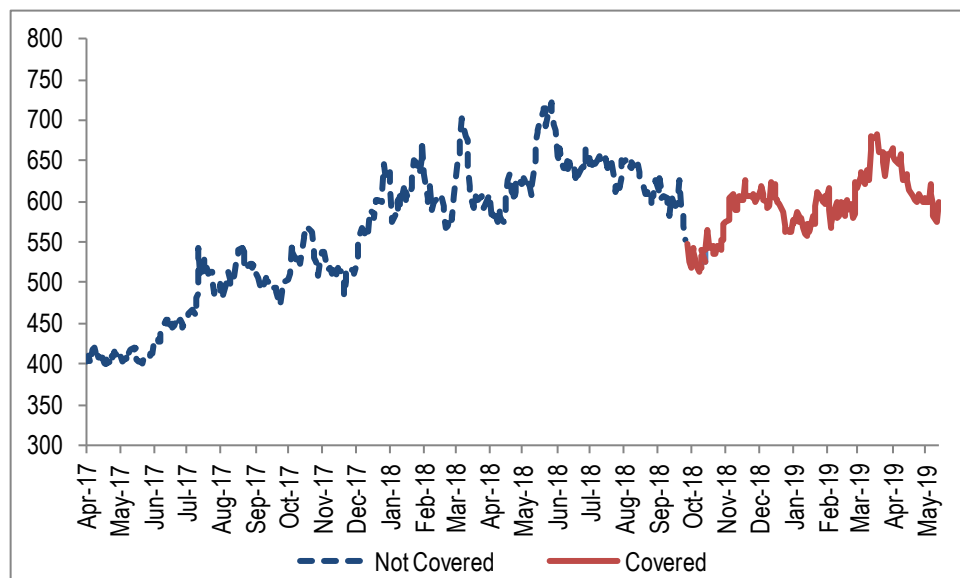
Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Profitability and return ratios					
EBITDA margin (%)	46.4	48.0	50.1	49.8	51.4
EBIT margin (%)	35.7	35.8	39.8	39.8	42.5
Net profit margin (%)	10.4	13.0	23.3	14.6	16.6
RoE (%)	7.8	8.5	12.1	9.8	11.3
RoCE (%)	10.3	7.9	8.9	8.7	9.6
Working capital & liquidity ratios					
Receivables (days)	29	29	36	40	40
Inventory (days)	490	451	396	480	480
Payables (days)	58	71	65	71	71
Current ratio (x)	2.1	1.0	1.2	1.2	1.3
Valuation ratios					
EV/sales (x)	7.3	8.4	7.3	7.5	6.8
EV/EBITDA (x)	15.8	17.5	14.7	15.0	13.3
P/E (x)	56.8	39.4	22.7	29.5	23.1
P/BV (x)	4.4	3.3	2.7	2.9	2.6

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
28 September 2018	Buy	553	791
09 November 2018	Buy	605	791
11 February 2019	Buy	587	791
17 May 2019	Buy	623	791

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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