Initiating Coverage

ICICI direct Research

December 4, 2018

The Phoenix Mills Ltd (PHOMIL)

Quasi play on retail growth story!!!

₹ 622

Rating matrix

Rating	:	Buy
Target	:	₹ 775
Target Period	:	18-24 months
Potential Upside	:	25%

YoY Growth (%)

₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	2.5%	-11.2%	5.8%	15.2%
EBITDA	7.6%	-8.2%	9.7%	16.6%
Adj. PAT	30.3%	44.2%	4.1%	28.0%
Adj. EPS (₹)	30.3%	44.2%	4.1%	28.0%

Valuation summary

(x)	FY17	FY18	FY19E	FY20E
P/E (Adjusted)	56.7	39.3	37.8	29.5
Target P/E	70.7	49.0	47.1	36.8
EV / EBITDA	15.4	16.5	16.0	14.1
P/BV	4.4	3.3	2.6	2.4
RoNW (%)	7.8	8.5	7.0	8.2
RoCE (%)	11.0	8.6	7.8	8.5

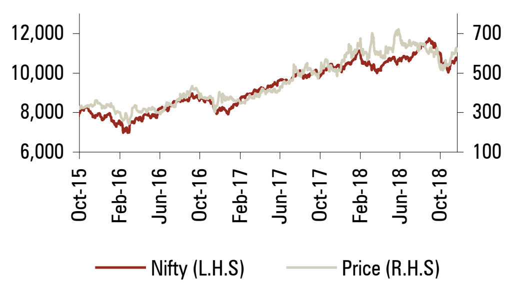
Stock data

Particular	Amount (₹ crore)
Market Capitalization	9,525.4
Total Debt	3,666.5
Cash and Investments	44.9
EV	12,815.8
52 week H/L (₹)	725 / 480
Equity capital	30.6
Face value	₹ 2

Comparative Return Matrix (%)

Return %	1M	3M	6M	12M
The Phoenix Mills	10.3	(7.8)	(3.5)	16.9
Sunteck Realty	(5.7)	(26.5)	(22.7)	(9.8)
Oberoi Realty	6.2	(15.4)	(22.4)	(13.9)
BSE Realty	7.1	(17.4)	(25.5)	(24.4)

Price Movement



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Phoenix Mills (PML) is a market leader and owner of prime malls in India. It started the real estate business with its iconic High Street Phoenix mall. Sailing on its retail-led mixed-use development model, PML has an operational asset portfolio of eight operational retail assets aggregating 5.9 msf and four operational commercial assets aggregating 1.16 msf. Going ahead, PML plans to almost double its retail portfolio and triple its commercial asset portfolio. Consequently, we expect its rental income to almost double to ₹ 1702 crore in FY18-23E. We also highlight that PML is well funded for its current expansion plans through CPPIB alliance and strong internal accruals. Hence, we initiate coverage on PML with an SOTP based target price of ₹ 775.

PML to double its retail portfolio over next four to five years…

PML enjoys a quality retail asset portfolio of eight operational assets across top cities aggregating 5.9 msf. It generated rental income of ₹ 867.8 crore in FY18. It plans to double its retail portfolio to 10.6 msf over next four to five years leading to next leg of growth. Hence, we expect rental income to grow at 14.4% CAGR to ₹ 1702.4 crore in FY18-23E.

CPPIB alliance, internal accruals to fund expansion

In our view, PML would require equity commitment of ~₹ 1710 crore during FY19E-23E to fund its current expansion plans. The recent CPPIB alliance bringing ₹ 1662 crore money in the platform (₹ 938 crore are infused in FY19E) for expansion of its retail portfolio (Hebbal: 1 msf, Wakad:1 msf, Indore:1.1msf) and operational cash flow worth ₹ 700-1000 crore per annum are more sufficient to fund its expansion plans.

Commercial portfolio to grow to ~3 msf…

PML has four operational commercial assets (GLA: 1.16 msf). Also, it has two under construction assets at Pune, Chennai with GLA of 1.12 msf. and plans to develop commercial asset at PMC Hebbal with GLA of 0.65 msf. These expansions would augment PML's commercial portfolio to ~3 msf in next four to five years. Once operational, we expect the commercial portfolio rentals to grow at 23.5% CAGR to ₹ 223.4 crore in FY18-24E.

To embark on growth path; initiate coverage with BUY…

PML is currently trading at 14.1x FY20E EV/EBITDA. We like PML given its quality of retail asset portfolio, almost doubling its asset portfolio, which would drive the next leg of growth. In our view, PML's current valuation reflects only operational retail & commercial asset valuation and does not assign any value to its expansion portfolio (~24% of our valuation). Hence, we initiate coverage on PML with SOTP based TP of ₹ 775/share.

Exhibit 1: Financial Summary

	FY16	FY17	FY18	FY19E	FY20E
Net sales	1,779.5	1,824.6	1,619.8	1,713.0	1,973.1
EBITDA	786.9	846.9	777.4	852.6	994.3
Net Profit	128.9	167.9	242.2	252.1	322.8
EPS (₹)	8.4	11.0	15.8	16.5	21.1
P/E (x)	73.9	56.7	39.3	37.8	29.5
Price/ Book (x)	4.7	4.4	3.3	2.6	2.4
EV/ EBITDA (x)	16.8	15.4	16.5	16.0	14.1
RoCE (%)	9.5	11.0	8.6	7.8	8.5
RoE (%)	6.4	7.8	8.5	7.0	8.2
RoIC	9.6	11.0	10.3	10.9	13.1

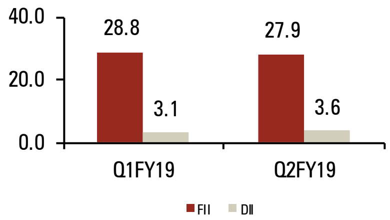
Source: Company, ICICI Direct Research

Shareholding pattern (Q2FY19)

Shareholder	Holding (%)
Promoter	62.8
FII	27.9
DII	3.6
Others	5.7
Total	**100.0**

Source: BSE Filing, ICICI Direct Research

Shareholding pattern (Q2FY19)



Source: BSE Filing, ICICI Direct Research

Company background

Headquartered in Mumbai, Phoenix Mills (PML) is a market leader and an active owner, developer and manager of prime retail assets in key Indian cities. Established in 1905, PML began operations as a textile manufacturing company in Mumbai and got listed on the BSE in 1959. Later on, PML exited its textile business and forayed into the real estate sector with its iconic High Street Phoenix (HSP) mall in Mumbai in 1996. Since then, the company has grown its asset portfolio across segments like retail (malls), residential, commercial & hospitality, thus diversifying its product portfolio. PML has a unique city-centric retail-led mixed-use development model for sustainable profitability and growth of its business. Such a model has enabled PML to cross-sell its services. Currently, the company has a gross asset portfolio of 17.5 million square feet (msf). Its product portfolio can be divided in four broad categories: -

- **Retail:** Apart from its iconic HSP & Palladium (Mumbai), PML is an active owner, developer and manager of Phoenix Market City in Mumbai, Bengaluru, Chennai & Pune with a leasable area of 6 msf and contributes ~65% to the company's revenues. On increasing its footprint, the company plans to almost double its retail portfolio to ~11-12 msf over the next five years
- **Commercial:** PML owns commercial assets in Mumbai with rent generating leasable area of 1 msf. The portfolio consists of offices like Art Guild House, The Centrium, Phoenix Paragon Plaza and Phoenix House. The segment contributes 4% to total revenues
- **Hospitality:** PML has two marquee hotels viz. St. Regis (Mumbai) and Courtyard by Marriot (Agra) under its hospitality portfolio. St. Regis has 395 keys while Courtyard has 193 keys. Overall, the segment contributes 17% to total revenues
- **Residential:** PML has three assets under its residential portfolio with saleable area of 3.72 msf (launched: 2.58 msf) – One Bangalore West, Kessaku in Bengaluru & Crest in Chennai. Residential segment contributes ~13% to revenues of PML

Exhibit 2: Phoenix Mills Snapshot

Snapshot of FY2018

₹63.2 Billion
Retail Consumption

₹8.7 Billion
Rental Income

Assets Overview

17.5 Million Sq. Ft.
In Retail, Hospitality, Commercial and Residential Assets developed

Retail

8 Malls
In 6 Cities with an operational portfolio of 6.0 Million Sq. Ft.

5 Malls
Over 4.6 Million Sq. Ft. under development

Commercial & Hospitality

5
Operational Commercial Centers in 2 Cities

2
Commercial centers under development

2
Operational Hotels

Residential

2
Residential Projects under Development 3.2 Million Sq. Ft.

Source: Company, ICICI Direct Research

Exhibit 3: PML Timeline…

1905
- Began operations as a textile manufacturing company on 17.3 acres land in Lower Parel, Mumbai

1959
- Listed on the BSE

1986
- Made operational Phoenix
- House commercial centre

1987
- Entered into the growing real estate market where High Street Phoenix emerged as the most frequented destination in Mumbai

1992
- The first multi-storied Phoenix residential towers were built on the Phoenix Mills Land

1996
- Opened 20 lane bowling concourse, the first of its kind in India and largest in South Asia

2001
- HSP emerged as a model for retail-led development centre with introduction of Big Bazaar

2002
- The first multi-storied Phoenix residential towers were built on the Phoenix Mills Land

2003
- Pantaloon and Lifestyle, two large departmental stores, each covering approximately 50,000 sq ft of retail shopping were operational

2005
- Celebrated 100 years anniversary

2009
- Launched Palladium Mall, an architecturally designed first-of-its-kind super luxury premium and iconic mall in HSP Complex

2011
- Launched Phoenix MarketCity in Pune, Bengaluru and Kurla (Mumbai)
- Total brands = 300 (national & international)

2012
- Launched Palladium Hotel, a 5-star luxury hotel, nestled above the Palladium Mall
- Launched One Bangalore West with 30-storey high-rise towers

2013
- Launched Phoenix MarketCity Mall, Chennai, a mixed-use asset with 300-plus stores

2016
- The St. Regis, Mumbai, the premiere most brand in Starwood Hotels portfolio begins operations

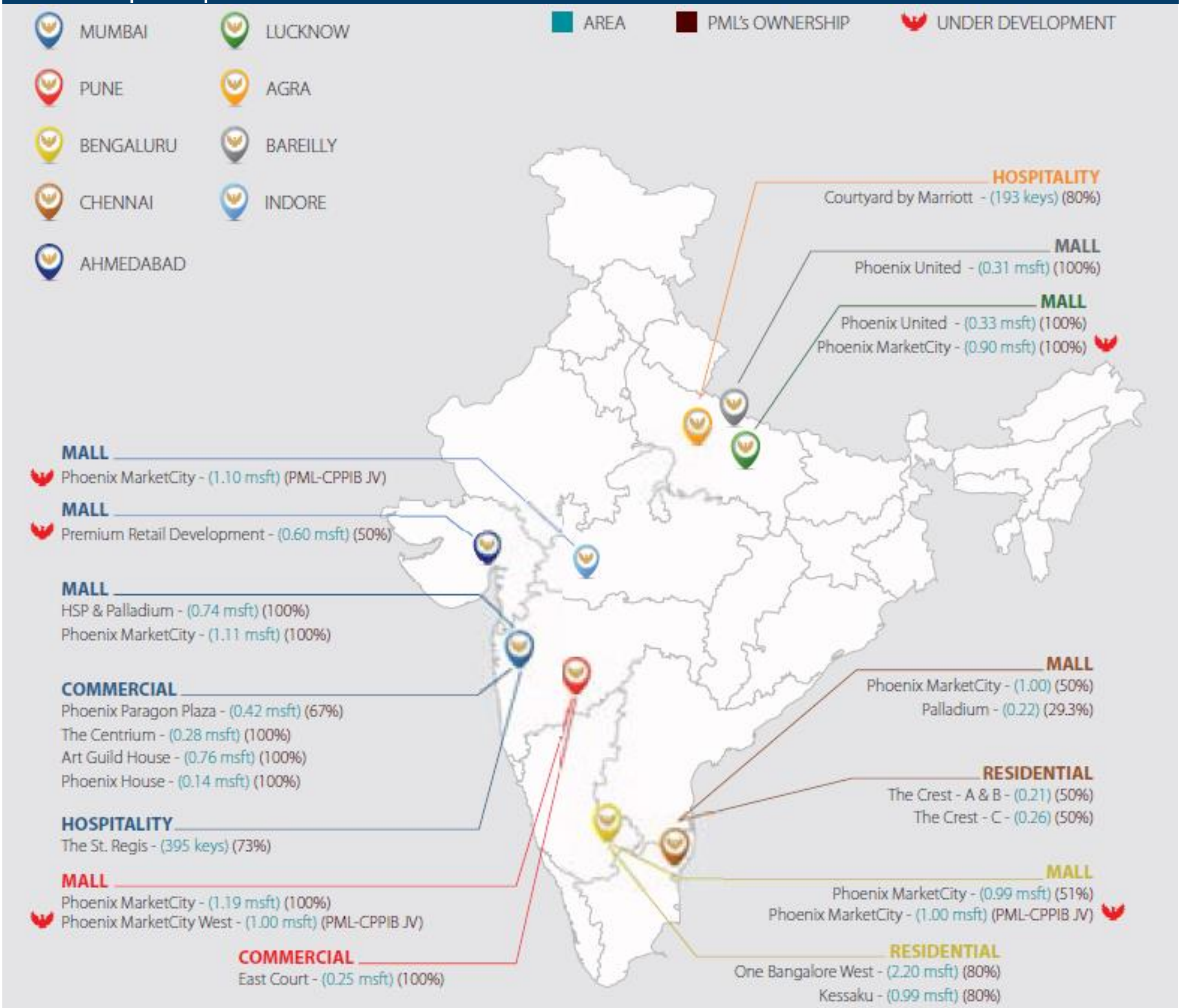
2017
- Partnered with CPPIB to develop retail-led mixed-use development assets (PML has 51% stake in the JV - ISMDPL)

Source: Company, ICICI Direct Research

Exhibit 4: Phoenix Mills brand positioning…

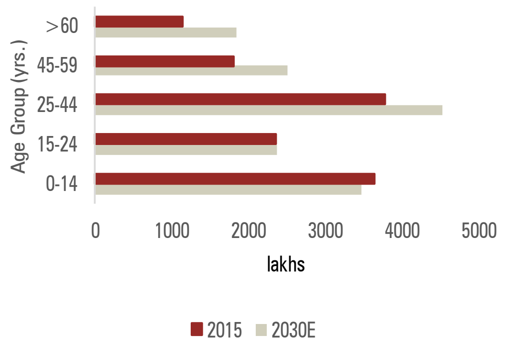
Source: Company, ICICI Direct Research

Exhibit 5: PML's pan India presence…



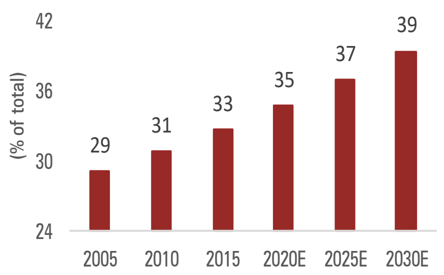
Source: Company, ICICI Direct Research
msf: million square feet

India Demographics



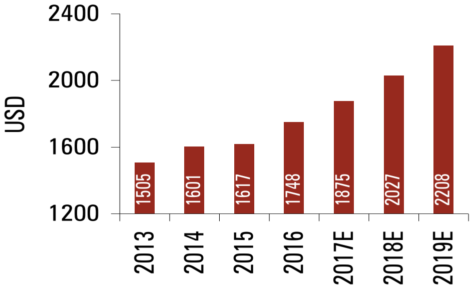
Source: Euromonitor International

Urban Population



Source: Euromonitor International

India per capita disposable income



Source: Euromonitor International

Modern retail industry to grow at better pace…

India's retail market can broadly be classified into two major heads i.e. organised retailing and unorganised retailing. **Organised retailing** refers to trading activities undertaken by licensed retailers, which includes publicly traded supermarkets, corporate-backed hypermarkets & retail chains along with privately owned large retail businesses. On the other hand, **unorganised retailing**, which commands a majority of retail market share, refers to the traditional formats of low-cost retailing like local shops, general stores, convenience stores, etc.

The Indian retail market is estimated at US$616 billion in FY16 and is expected to grow at a CAGR of 12% to US$960 billion by FY20. However, the penetration of organised retail in India is abysmally low at 9% and is valued at US$55 billion as on FY16. Hence, organised retail is growing at a faster pace than its unorganised counterpart.

Modern retail forms a part of organised retail and includes large format stores (LFS). Although the share of modern retail penetration in India is not eye-catching, there is still a lot to cheer as consumer spending and disposable income levels continue to move north at a more rapid pace. There is ample dynamism at present, with a number of international brands entering the market. The company is also working towards reinventing existing brands to keep up with the pace of growth in the sector. Nevertheless, there is huge untapped potential for the growth of modern retail in the top six retail markets in India. The share of modern retail is 84%, 71%, and 53% in the US, Singapore and Malaysia, respectively. In contrast, it is only 19% of the value of total retail spending in top six cities of India, which includes the National Capital Region, Mumbai, Chennai, Bengaluru, Pune and Hyderabad.

Exhibit 6: Modern retail growth to surpass unorganised retail growth in top six cities…

Retail market in Top 6 cities of India	2016 (₹ lakh crore)	2019 (₹ lakh crore)	2016-19 CAGR
Modern retail	0.9	1.7	25.4%
Traditional retail	3.7	5.5	14.1%
Total	**4.5**	**7.2**	**16.5%**

Source: Knight Frank, ICICI Direct Research

Furthermore, the penetration of modern retail in top six cities is at 19%. It is expected to improve to 24% by 2019.

Exhibit 7: Modern retail penetration to improve in top six cities

Cities	Penetration of Modern retail	
	2,016	**2019E**
Mumbai	14.0%	17.0%
NCR - Delhi	26.0%	33.0%
Bengaluru	14.0%	31.0%
Chennai	14.0%	19.0%
Hyderabad	14.0%	12.0%
Pune	14.0%	26.0%
Top Urban Centres	**19%**	**24%**

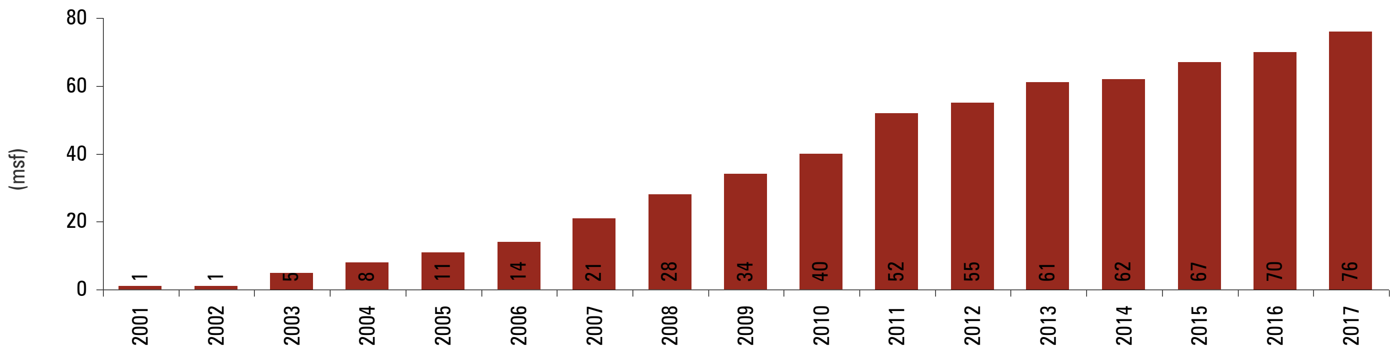
Source: Knight Frank, ICICI Direct Research

With the organised retail sector growing at a rapid pace, led by a rise in spending capacity among consumers, developers started sensing an opportunity and developed malls. This led to an increase in the number of malls across India.

Competitive landscape of Indian malls…

Malls form an essential part of the consumption value chain. A circular cycle exists where consumption encourages establishment of malls while malls, in turn, accelerate consumption growth in the Indian landscape. Initially developed to attract the urban class, malls started coming up in top Indian cities like Mumbai, Delhi and Chennai. New malls have opened at ~23.6% CAGR till 2017 ever since the first mall opened in 1995 (Exhibit 8) as a result of the growing organised retail sector and increase in spending capacity. Increasing footfalls, trading density and consumption growth have led malls to emerge from purely shopping centres to shopping-cum-entertainment hotspots to lately becoming top hangout destinations for youngsters and families.

Exhibit 8: Growth of mall space in India…

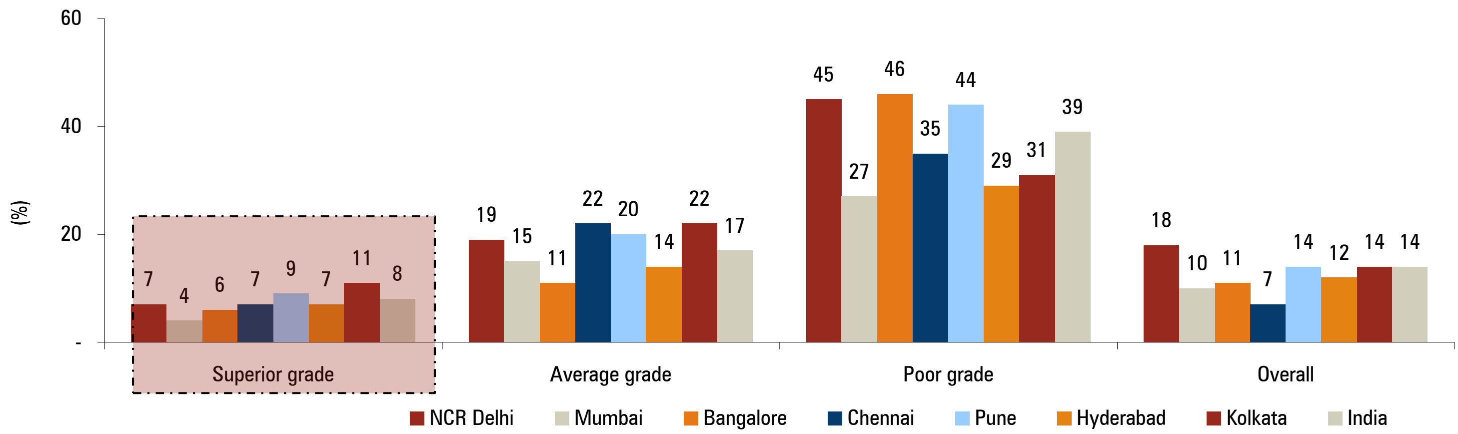


Source: JLL India: Real Estate Intelligence Service (REIS), ICICI Direct Research

Pressing need of quality malls…

Despite the growth in organised retail, which led to accelerated opening of malls, there is a lack of quality malls in India. The graph below shows higher vacancy levels for poor grade malls. This is because poor grade malls fail to drive footfalls and consumption resulting in lower occupancy and are unable to attract big brands. Hence, in India, while there is only 8% vacancy in superior grade malls, vacancy in poor grade malls is very high at 39%.

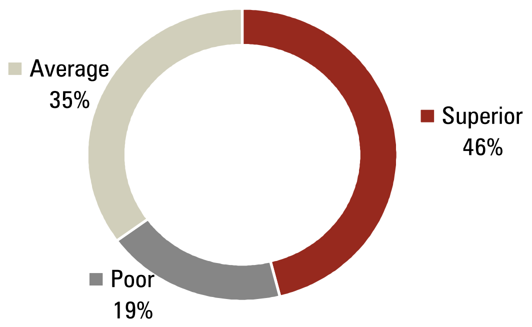
Exhibit 9: High vacancy in poor grade malls across India (as of H1CY18)



Source: JLL India: REIS, ICICI Direct Research

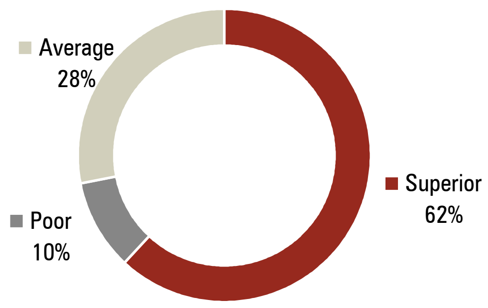
Developers are coming up with ~90 malls on an aggregate of 34 msf area in different locations in India. Also, developers have now learnt from their past mistakes with only experienced players continuing to build malls. As can be seen, superior grade malls account for the highest share in the pie of ~62% worth ~21.1 msf. This shows the importance of superior grade malls.

Exhibit 10: Operational mall stock in 2008-12



Source: JLL India: REIS, ICICI Direct Research

Exhibit 11: Future supply pipeline of malls over 2018-22

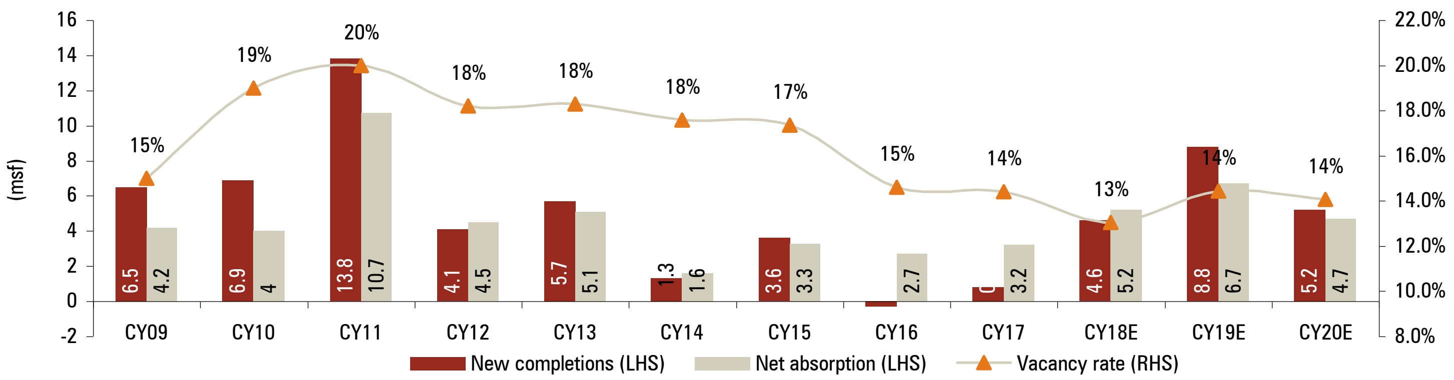


Source: JLL India: REIS, ICICI Direct Research

Net absorption, supply set to increase…

Net absorption of retail space is projected to increase robustly in CY18-20E, on the back of good quality supply that is coming up across cities. These cities are also witnessing healthy pre-commitments of space in projects slated to be completed in CY18-20E. According to a Jones Lang LaSalle (JLL) report, ~18 msf of retail space will likely be absorbed during the same period. With increased supply and demand ahead, the pan India vacancy rate is expected to stay at ~14% in CY18-20E.

Exhibit 12: Rising new supply and absorption…



Source: JLL India: REIS, ICICI Direct Research

Increased participation from investors…

Enhanced mall design, in combination with catchment area, drives higher rentals in cities. Such traction for growth of malls has attracted the likes of investors like Blackstone, Singapore government-owned GIC, Xander Group, etc, who have bought several mall assets in the past three to four years. In the past few years, malls based on lease-only model have seen increased interest from such investors. This has been strengthened by regulations like easing foreign investment for single brand and an updated framework for establishing real estate investment trusts (REITs).

Exhibit 13: PE deals in retail space over past few years...

Year	Deals
2015	Blackstone acquires two retail assets of Alpha G:Corp in Amritsar and Ahmedabad, respectively for around ₹ 800 crore.
2016	(i) Blackstone bought a 1msf retail mall adjacent to the office tower in Seawoods from L&T Realty for ₹ 1400 crore. (ii) Blackstone bought stake in Pune- Westend mall, Aundh for ₹ 600 crore. Singapore government-owned GIC bought 50% stake in Viviana Mall in Thane for ₹ 1000 crore.
2017	(i) Virtuous Retail (Xander Group and Dutch pension fund APG retail platform), bought North Country Mall in Mohali, Punjab for ₹ 700 crore from SUN-Apollo – JJ Gumberg. (ii) Blackstone arm bought Chandigarh's Elante Mall (along with the office block) for ~₹ 2200 crore. (iii) GIC bought 33% stake in DLF commercial portfolio arm for ₹ 8900 crore, which included DLF Emporio and Promenade malls in Delhi NCR.
2018	(i) Phoenix, CPPIB bought 13 acre L&T land for ₹ 650 crore in North Bengaluru. (ii) Blackstone bought 85% stake in Nitesh Estate's Pune mall for ₹300 crore. (iii) Phoenix, CPPIB bought 15 acre land for ₹ 194 crore in Wakad, Pune. (iv) Phoenix, Bsafal JV bought 5.16 acre land in Ahmedabad for ₹ 460 crore in Ahmedabad.

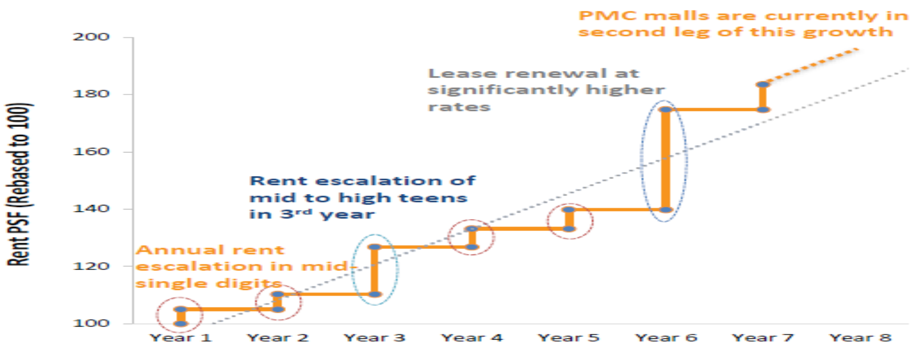
Source: JLL India: REIS, ICICI Direct Research

Investment Rationale

PML: Unique proxy play on Indian retail industry…

PML is an active owner, developer & manager of eight retail assets in key cities of India with leasable space of 5.9 msf. However, what makes it a unique player in this space is that it not only leases space to retailers in its malls but also **participates with retailers** over the entire life-cycle of malls. PML enters into lease agreements with a majority of retailers in such a way that enables it to participate in the revenue share of retailers. As per agreement, retailers need to pay a minimum guarantee (MG) rent or revenue share (percentage of consumption), whichever is higher to PML. We highlight that this type of arrangement shields the company from any slowdown in retailer revenues. Secondly, the arrangement also enables PML to participate through MG rent clause in initial years when store revenues are lower and participates in revenue share kind of arrangement from year six onwards when store revenues have stabilised. PMC Mumbai, PMC Pune, PMC Bangalore and PMC Chennai, which have been operational since FY14-15, will very soon enter their year six of operations. Hence, they should see a significant boost in rentals.

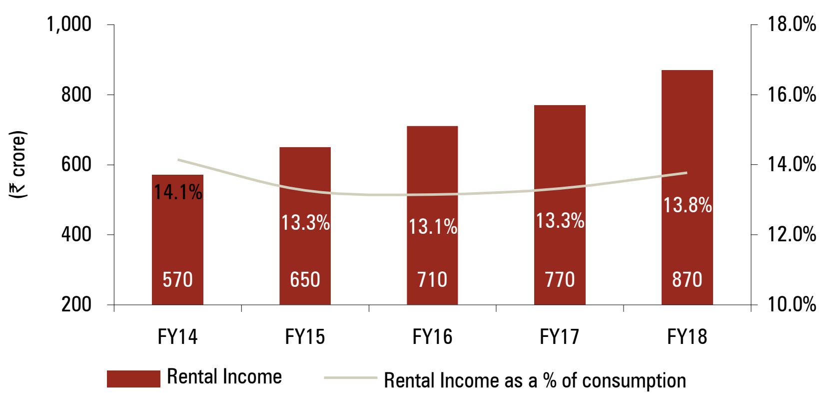
Exhibit 14: Cash-flow cycle of mall…



Source: Company, ICICI Direct Research

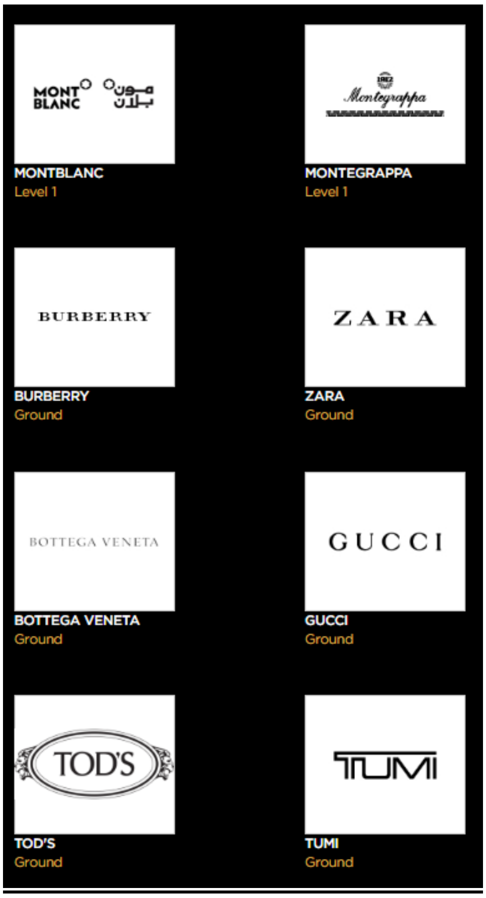
PML's rental revenues have grown at a CAGR of 11.2% at ₹ 867 crore in FY14-18, which is largely in tandem with consumption growth rate across PML's various mall. Rental revenues, as a percentage of consumption, have been in the range of 13-14% for PML. This type of consumption growth linked rental arrangement makes it a unique proxy play on the Indian retail industry, in our view.

Exhibit 15: Consumption vs. rental income



Source: Company, ICICI Direct Research

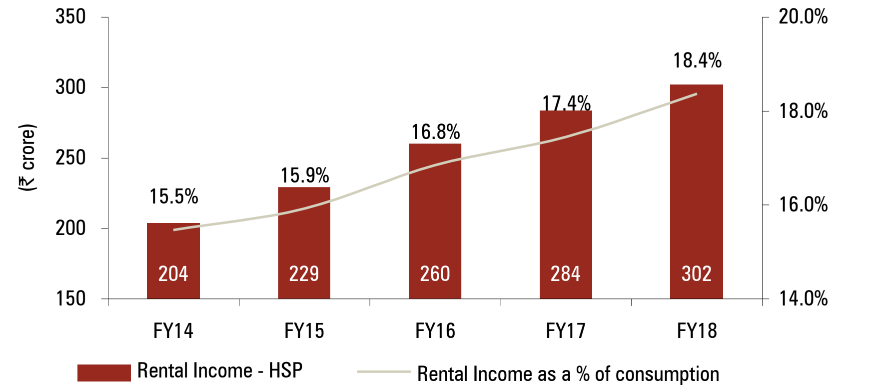
Brands present at HSP Palladium



HSP & Palladium: Jewel in the crown for PML!

The iconic mall HSP was opened in Lower Parel, Mumbai in 1996. Today, it is still one of the largest and most premium shopping malls in India. HSP started its operations with the opening of several leading national and international brand retail outlets. Big Bazaar, which was India's first hypermarket concept, was introduced in HSP in 2001. This was an anchor outlet for the mall in the early 2000s. Gradually, PML incorporated several other brand stores and outlets that acted as retail anchors. The company launched Palladium Mall – a first-of-its-kind super luxury premium mall in HSP Complex in 2009. These launches, strategies and keeping itself ahead of time have helped HSP and Palladium create customer stickiness with the upper middle class, elite and affluent income group. Today, HSP has a presence in a range of fashion, jewellery and F&B brand outlets.

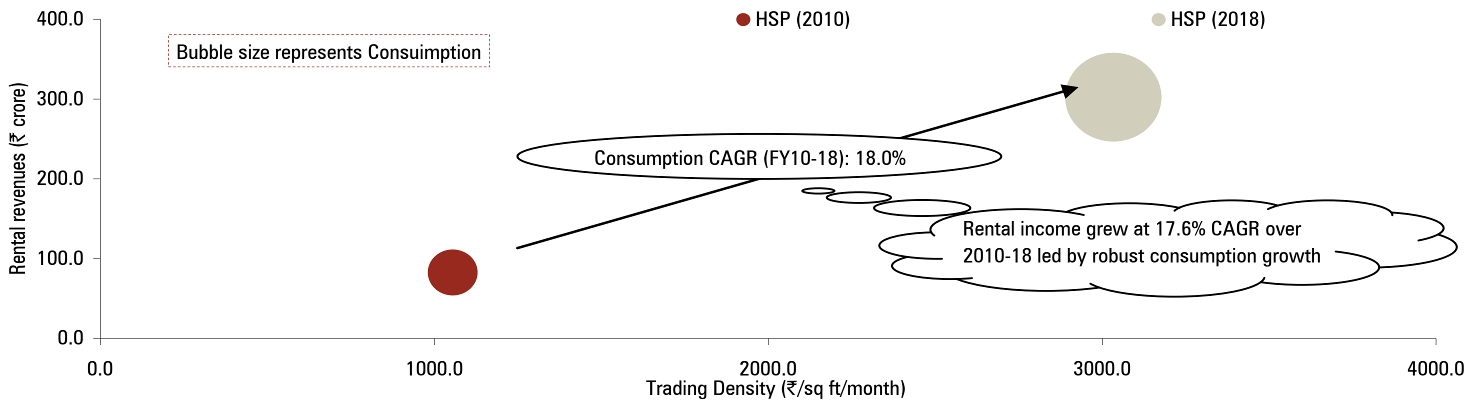
Exhibit 16: HSP & Palladium rental income



Source: Company, ICICI Direct Research

PML has been able to successfully deliver long term sustainable growth at High Street Phoenix through the cycle over FY10-18. Trading density has grown 3x at ₹ 3034 per sq ft during the same period. This was on account of various strategies adopted by PML in HSP like actively organising live events with celebrities, better bouquet of premium brands. These steps yielded positive results over the long term.

Exhibit 17: HSP's consumption growth trajectory



Source: Company, ICICI Direct Research

Retail malls portfolio: Money-spinner business for PML!

PML has evolved into a retail powerhouse and multi-asset, pan-India, retail-led company with eight operational malls having 6 msf area under management in six key cities of India. These retail assets have been uncovering urban demand with a mix of top international and national brands. This has resulted in increased footfalls over the years leading to higher consumption. Occupancy across these mall has been in the range of 81-94% across portfolio. Consumption at PML's malls has grown at 19.4% CAGR to ~₹ 6300 crore in FY13-18. The rental income is also growing in sync with underlying consumption growth in these assets.

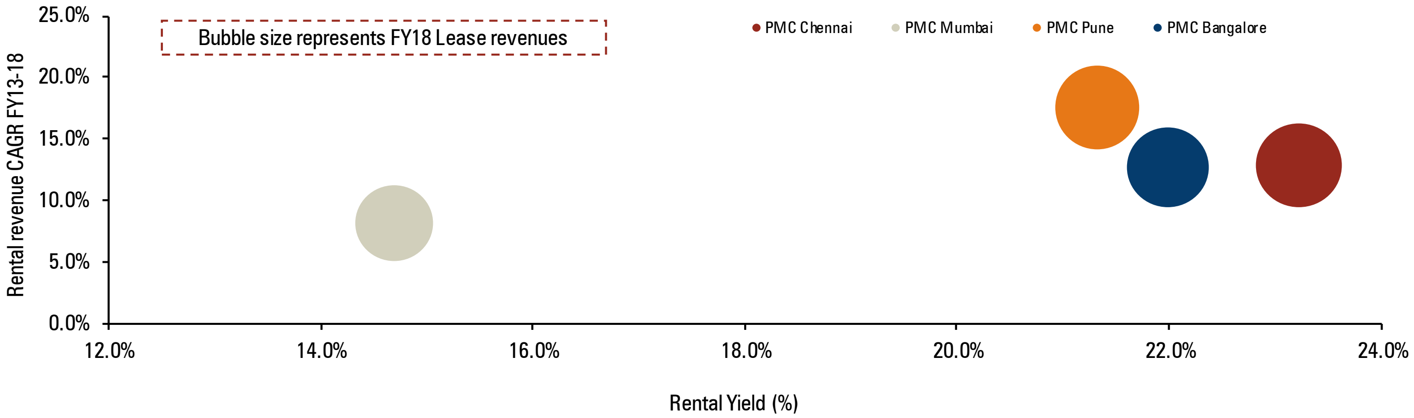
Exhibit 18: Mall assets

Mall	Stake	Area (msf)	Total No. of Stores	Trading Occupancy	Average rental rate (₹/sf/month)	Rental income (₹ crore)	Trading Density (₹/sf pm)
HSP & Palladium	100%	0.74	258	98%	378	302.2	2,729
PMC Bengaluru	51%	0.99	297	97%	118	127.5	1,663
PMC Chennai	50%	1.00	263	96%	136	139.4	1,565
PMC Pune	100%	1.19	330	95%	114	138.6	1,201
PMC Mumbai	100%	1.11	310	93%	99	110.2	1,150
PU Bareilly	100%	0.31	95	82%	66	18.5	744
PU Lucknow	100%	0.33	126	91%	76	26.9	1,101
Palladium Chennai	29%	0.22	77	75%	132	3.0	824.0
Total		**5.89**	**1,756**			**866.3**	

Source: Company, ICICI Direct Research *PMC: Phoenix Market City; PU: Phoenix United*

In addition to PML's HSP-Palladium, the rental rate growth has been robust for its other PMC malls as well. Also, barring PMC Mumbai, PML has been able to generate superior yields in excess of 20% for PMC Chennai, Pune and Bangalore. Even in PMC Mumbai, rental yield is good at ~15%.

Exhibit 19: Rental rate growth vs. yield across retail assets



Source: Company, ICICI Direct Research *PMC: Phoenix Market City*

Retail portfolio to almost double over next five years…

PML has a rental portfolio of eight operational mall assets spread across six cities with a leasable area of 6 msf. The company is planning to almost double its retail rental portfolio to ~11-12 msf in the next five years. This would lead to its next leg of growth. PML has already taken big steps in this direction with the acquisition of three assets (mix of land and under-construction assets) under CPPIB platform, one under construction asset at the parent level in Lucknow and a land deal in Ahmedabad in 50:50 JV with BSafal group. These acquisitions have a planned retail development potential of ~4.6 msf taking total rental portfolio to ~10.6 msf.

Exhibit 20: Retail portfolio expansion…

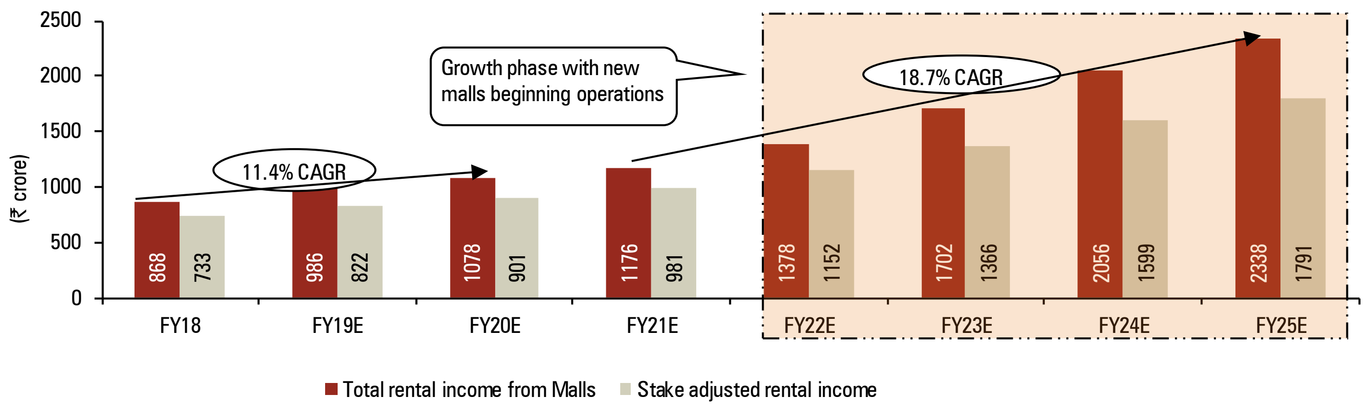
Project	Partnership/JV/Owned	Land Size (acre)	Development Potential	Land Acquisition Cost (₹ crore)	Comments
Pune	ISML - alliance with CPPIB (PML Stake: 51%)	15.0	1.6 msf (1 msf retail)	194	PML's second MarketCity mall in Pune Expect operations to commence during FY23
Bengaluru	ISML - alliance with CPPIB (PML Stake: 51%)	13.0	1.8 msf (1 msf retail)	693	PML's second MarketCity mall in Bengaluru Expect operations to commence in FY23
Indore	ISML - alliance with CPPIB (PML Stake: 51%)	19.0	1.1 msf retail	258	Acquired under-construction retail development Expect operations to commence in FY21
Ahmedabad	50:50 JV with BSafal group	5.2	0.6 msf retail	340	Formed a 50:50 JV with BSafal group Expect operations to commence in FY22
Lucknow	100% Owned	13.5	0.9 msf retail	470	Acquired under-construction retail development Expect operations to commence during FY21
Total		**65.7**	6 msf (4.6 msf retail)	**1,955**	

Source: Company, ICICI Direct Research

Rental income to grow at 15.2% CAGR over FY18-25E…

Currently, PML has a rental portfolio of ~6 msf with eight operational malls across six cities. With new greenfield expansions and acquisition of a few brownfield assets, its rental portfolio is expected to increase from 5.9 msf to 10.6 msf over the next few years. By FY22-23, all of its new malls would start operating. We expect them to stabilise and operate at 90%+ capacity utilisation by FY25. Hence, we expect PML's rental income to grow robustly at 15.2% CAGR to ₹ 2338.5 crore in FY18-25E. Even stake adjusted rental income is expected to grow at 13.6% CAGR to ₹ 1791 crore in FY18-25E.

Exhibit 21: Rental income to grow strongly...

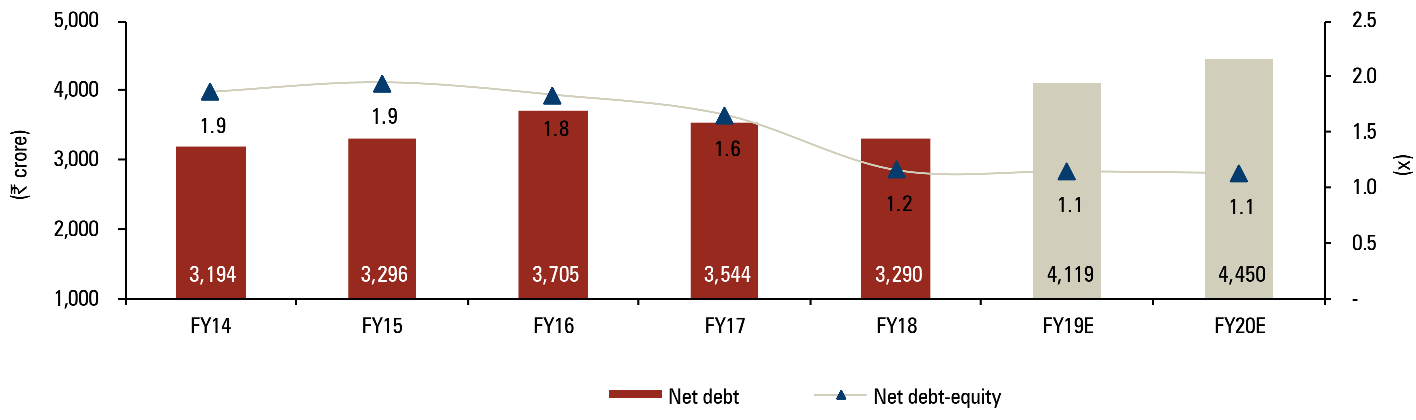


Source: Company, ICICI Direct Research

PML expanding its retail portfolio via asset light model…

PML has net debt of ₹ 3621.6 crore and net debt-equity of 1.2x. Going ahead, expansion in its asset portfolio is expected to happen through an asset light model, which would result in low incremental investment to fund next leg of growth. Hence, its leverage profile would stay under control despite significant retail portfolio expansion. In line with this, PML is developing three malls with CPPIB (51:49 JV) (explained in Exhibit 23) and a mall in 50:50 JV with BSafal group. With an asset light approach for expansion, we do not foresee a meaningful rise in debt. Hence, we expect PML's net debt-equity to reduce from 1.2x in FY18 to 1.1x in FY20E.

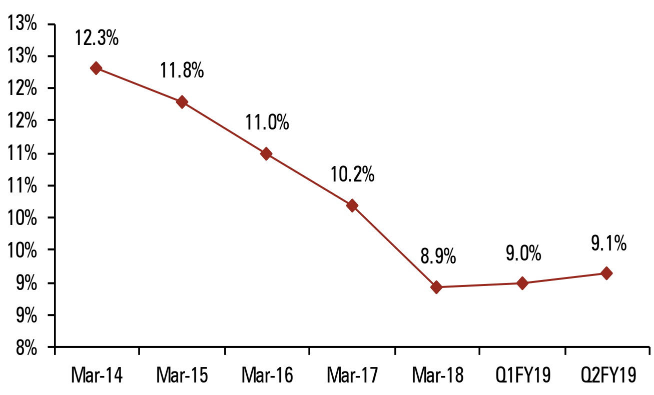
Exhibit 22: Net debt and net debt-equity trend…



Source: Company, ICICI Direct Research

Secondly, we also highlight that most subsidiaries of PML enjoy credit ratings of A- or above from Crisil and India Ratings. In fact, one of the subsidiaries – PMC Chennai, has AAA ratings, which is extremely rare in the industry. Hence, it could continue to enjoy better borrowing cost compared to other players in the sector.

Exhibit 23: Cost of debt trend



Source: Company, ICICI Direct Research

Exhibit 24: Credit ratings

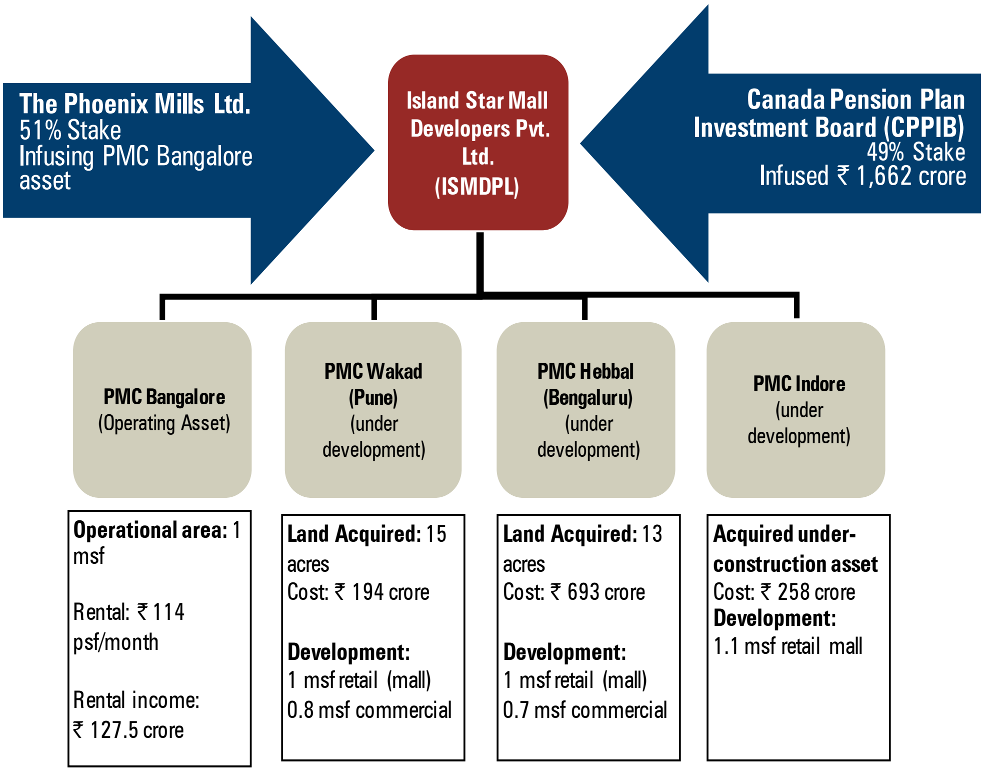
Credit Ratings	Q2FY19	Ratings Agency
PMC Chennai	AAA	India Ratings
PML Standalone	A+	Crisil, India Ratings
PMC Bangalore	A	Crisil
The St. Regis, Mumbai	A-	Crisil
PMC Pune	A-	Crisil

Source: Company, ICICI Direct Research

CPPIB Alliance: The game changer!

The company formed a strategic retail alliance with Canadian Pension Plan Investment Board (CPPIB) to create a platform, which would invest in developing retail assets. Under this alliance, CPPIB brought in an aggregate equity contribution of ₹ 1662 crore for a 49% stake in Island Star Mall Developers Pvt Ltd (ISMDPL). ISMDPL holds PMC Bangalore, which has a leasable area of 1 msf, which generated rental income worth ₹ 127.5 crore @ average rental rate of ₹ 114.2 per sq ft per month. Within 14 months of formation of this alliance, PML has fully committed these funds in three new acquisitions - two of these are greenfield opportunities in Pune, Bengaluru while one is a brownfield development in Indore. PML's main motive behind this alliance was to accelerate its foray into new large greenfield and brownfield projects with low incremental capital infusion. PML plans to maintain 1:1 D/E ratio for ISMDPL, with which the company plans to develop four assets (including the Wakad and Hebbal projects).

Exhibit 25: CPPIB deal structure



Source: Company, ICICI Direct Research

Also, under the CPPIB platform, PML will be receiving fees for mall management. PML would be receiving the following: -

a) Management fees: 4% of revenues

b) New lease: two month's rent

c) Operator fee: 1.25% of net operating income

d) Performance fee: once the mall reaches a certain threshold

e) Acquisition fee: 1% of acquisition of operating mall on greenfield asset

Asset-light spree continues outside CPPIB alliance…

PML has bought two more assets with the aim of doubling its rental portfolio with one asset through the JV route. In June 2018, PML acquired 13.5 acres of land with an under-construction retail development in Gomti Nagar, Lucknow to be developed as Phoenix Market City Lucknow for ₹ 453 crore. The development is part of envisaged super mega mixed use integrated project comprising retail, hospitality and commercial developments. The proposed development will have a gross leasable area of 0.9 msf. This project is 100% owned by Phoenix Mills. Furthermore, in July 2018, PML entered into a 50:50 JV with Ahmedabad based BSafal group. The JV has acquired 5.16 acres of land, at the Sarkhej-Gandhi Highway, at ₹ 460 crore (PML's share: ₹ 230 crore) to develop a premium retail development of 0.6 msf in the first phase. PML will design, lease and manage the asset and earn a fee for these activities. Sarkhej Gandhinagar (SG) highway road is the key growth corridor of the city, which includes prime affluent residential and commercial catchments such as Vastrapur, Prahlad Nagar, Navrangpura, Satellite Road, etc. Once fully operational, these malls will contribute incremental rental income worth ₹ 246.5 crore per annum.

CPPIB alliance & internal accruals to fund current expansion…

PML is expanding its retail portfolio from 6 msf to 10.6 msf entailing a capex of ~₹ 4350 crore. Also, the company is expanding its commercial portfolio from 1.16 msf to 2.93 msf entailing a capex of ₹ 970 crore. These expansion plans are expected to be complete by FY23E and entails an equity commitment of ₹ 2580 crore. Out of this, over ₹ 1700 crore is expected to be infused in FY19-23E. Funding this equity commitment should not be a problem as balance portion of CPPIB alliance money worth ₹ 938 crore (₹ 724 crore received in FY18 out of ₹ 1662 crore) along with internal accruals are more than sufficient to take care of equity commitment. We anticipate that even after meeting this equity commitment PML could see surplus cash over ₹ 1500 crore in FY19E-23E. These cash surpluses could be utilised towards debt reduction, higher dividend payout and to explore more opportunities for expansion.

Exhibit 26: Equity requirement easily fundable…

Equity Requirement	FY19E	FY20E	FY21E	FY22E	FY23E	Total
Wakad	30.0	31.5	49.6	52.1	-	163.2
Hebbal	33.0	34.7	54.6	57.3	-	179.5
Indore	247.0	28.4	14.9	-	-	290.2
Lucknow	280.4	24.4	25.6	-	-	330.4
Ahmedabad	234.5	14.2	14.9	15.6	-	279.2
Commercial	77.7	115.5	116.1	109.1	55.8	474.2
Total	**902.6**	**248.5**	**275.6**	**234.1**	**55.8**	**1,716.7**
Cash Inflow	**FY19E**	**FY20E**	**FY21E**	**FY22E**	**FY23E**	**Total**
CPPIB	938.0	-	-	-	-	938.0
OCF - Interest	(71.1)	362.1	562.5	688.2	751.2	2,293.0
Total	**866.9**	**362.1**	**562.5**	**688.2**	**751.2**	**3,231.0**
Net Cashflow	**-35.7**	**113.6**	**286.9**	**454.1**	**695.4**	**1,514.3**

Source: Company, ICICI Direct Research

Commercial portfolio: Steady income generator…

PML owns and operates Grade-A commercial, rent-generating space of about 1.67 msf in prime locations in Mumbai. A majority (~85%) of this is leased to Tier 1 clients, which ensures quality catchments and stable rental income. Currently, the commercial portfolio of PML is as follows:

Exhibit 27: Commercial assets…

Office	Location	Total Area (msf)	Area Sold(msf)	Net Leasable Area (msf)	Area Leased (msf)	Average Rate (₹/sq ft.)
Operational						
Phoenix Paragon Plaza	Mumbai	0.42	0.05	0.37	0.12	99
The Centrium	Mumbai	0.28	0.18	0.10	0.10	91
Art Guild House #	Mumbai	0.76	0.21	0.55	0.47	94
Phoenix House	Mumbai	0.14	-	0.14	0.13	110
Total Operational		1.60	0.44	1.16	0.82	
Under Development						
Phoenix Market City (Viman Nagar)	Pune	0.70	-	-	-	-
Phoenix Market City	Chennai	0.42	-	-	-	-
Phoenix Market City	Bengaluru	0.65	-	-	-	-
Total under development		**1.77**				
Grand development		**3.37**	**0.44**	**1.16**	**0.82**	

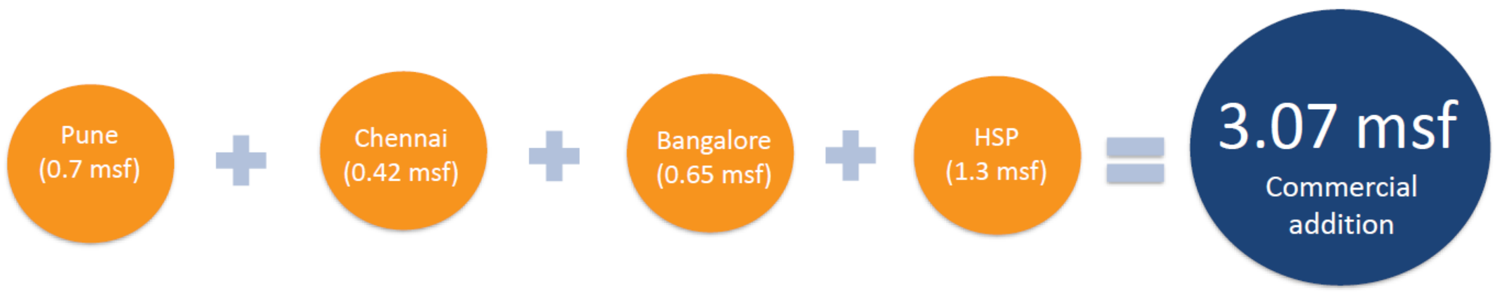
Source: Company, *ICICI Direct Research*

#: Total Area sold is 0.38 msf out of which PML owns 0.17 msf – this area is also counted in area available for lease

Growing commercial portfolio through brownfield expansions…

PML currently has rentable asset with net leasable area of 0.99 msf. To grow its commercial portfolio with low incremental investment, it is expanding its portfolio through the brownfield mode. It is developing about 1.1 msf commercial assets in Pune (0.7 msf) and Chennai (0.42 msf) alongside its retail assets PMC Pune Viman Nagar and PMC Chennai, respectively. Also, it could expand its portfolio alongside retail assets at PMC Bangalore (development potential: 0.65 msf). Though it has further commercial development potential worth 1.3 msf at HSP, it is at a very initial stage of discussion. Hence, we have not considered it in our financial estimates and valuation.

Exhibit 28: Commercial portfolio expansion…

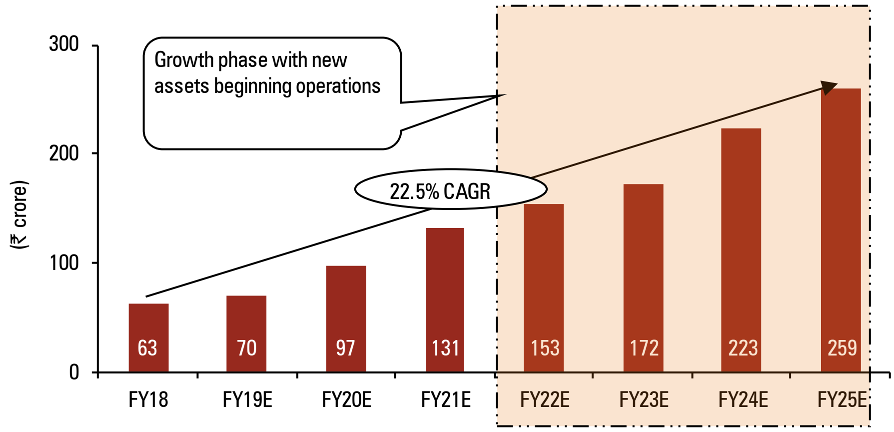


Source: Company, ICICI Direct Research

Commercial space rental income to grow at 22.5% CAGR…

PML currently has a commercial portfolio with net leasable area of 1.16 msf. This is expected to potentially increase to 2.93 msf (ex HSP expansion) by FY23E. Now, with incremental portfolio expected to generate lease revenues from FY23E onwards, we expect commercial rental income to grow at robust pace of 22.5% CAGR to ₹ 259.4 crore in FY18-25E.

Exhibit 29: Commercial rental income to grow robustly



Source: Company, ICICI Direct Research

Hospitality business: Icing on the cake!

In the hospitality segment, PML owns and operates marquee hospitality properties – St. Regis and Courtyard in Mumbai and Agra, respectively. These are managed by a global operator - Marriott and spread over an area of 5.63 msf. Hospitality contributes about 17% to overall revenues of PML.

Exhibit 30: Hospitality assets…

Hotel	Location	Keys	Occupancy	Avearge room rate per day (₹)	Revenues FY18 (₹ crore)
The St. Regis	Mumbai	395	76%	11,405	280
Courtyard by Marriot	Agra	193	65%	3,811	36

Source: Company, ICICI Direct Research

St Regis

St. Regis: It consists of modern and under-stated guest rooms, 27 suites and 33 residential suites. The hotel also houses a spa and salon, a fitness centre and a 25-metre outdoor swimming pool with a panoramic view. A 3,900 sq. m. event space is available for business meetings and special events. The hotel is strategically positioned to strengthen its outreach to affluent travellers and luxury hospitality.

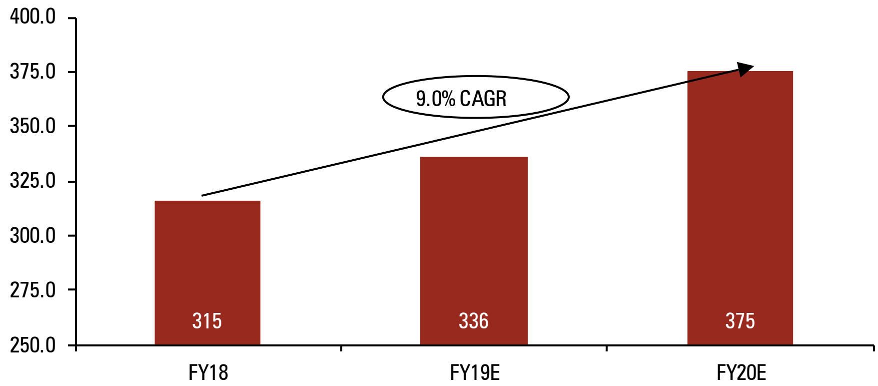
Courtyard, Agra: It is a part of the 1,000th Courtyard by Marriott globally and the twelfth property in India. Located on the land on which the Taj Mahal stands, the hotel is strategically positioned to capture foreign visitors and luxury-seeking consumers. It has 193 rooms along with four restaurants & bars.

Courtyard by Marriott, Agra

Hospitality space revenues to grow steadily at 9.0% CAGR…

PML would be maintaining its current hotel portfolio of two five star hotels. It is not keen on expanding the portfolio. Revenue growth from hospitality division was driven by strong performance of rooms, F&B and banquets. St. Regis is expected to sustain its strong performance, given limited supply of luxury hotels in South Mumbai and growing demand from business travellers, tourists. Hence, we expect hospitality revenues to grow at moderate pace of 9.0% CAGR to ₹ 375.0 crore in FY18-20E.

Exhibit 31: Hospitality revenues to grow steadily



Source: Company, ICICI Direct Research

Residential – To provide significant FCF over next few years…

PML's residential portfolio offers premium and upscale, large-scale residential developments in Bengaluru and Chennai. Currently, this portfolio comprises three assets with a total saleable area of 3.72 msf. The projects are as follows: -

One Bangalore West

Kessaku

The Crest

One Bangalore West: The project in Bengaluru city is PML's flagship residential project. It consists of Phoenix Club One-a 50,000-sq ft project, with elegant interiors and state-of-the-art amenities. The asset was developed according prime importance to customer convenience. Further, excellent location, good connectivity to all airports & metros, close proximity to malls, etc, make it a premium asset for PML. OBW has a saleable area of 2.2 msf of which 1.48 msf has been launched while 1.24 msf has been sold. The project has potential net cash inflows worth ₹ 583.8 crore over the next three to five years.

Kessaku: Kessaku is a one-of-its-kind development by PML offering customers the concept of 'bungalow living', the convenience of a 'gated community' and luxurious single-level homes. Launched in 2015, the Project includes five exclusive towers with expansive living spaces ranging between 6000 sq ft and 7500 sq ft, and artfully detailed duplex apartments of 12000 sq ft. Kessaku is strategically located in the vicinity of a metro station, World Trade Centre, premium shopping destinations, reputed educational institutions and hospitals. Kessaku has a saleable area of 0.99 msf of which 0.57 msf has been launched and 0.23 msf has been sold. The project has potential net cash inflows worth ₹ 852.4 crore over the next three to five years.

The Crest: The project in Velachery, Chennai consist of three towers, Crest A, B & C. The premium residences at Crest A & B are built on top of a luxury mall. The construction of all three residential towers (Tower A, B and C) has been completed. The Crest has a saleable area of 0.53 msf of which 0.43 msf is sold. The project has potential net cash inflows worth ₹ 91.1 crore over the next three to five years.

Residential portfolio to generate strong cash flows…

PML has a residential portfolio comprising three projects with a total saleable area of 3.72 msf. Out of this, the company has launched 2.58 msf and sold 1.92 msf till date with sales value of ₹ 1946.3 crore. Currently, the company has a balance inventory worth ₹ 843.8 crore. Apart from this, PML is yet to launch residential space worth 1.14 msf in coming years, which are valued at ₹ 1358.4 crore at current realisations. Hence, overall, PML's residential portfolio is expected to generate significant net cash inflows worth ₹ 1527.3 crore over the next three to five years.

Exhibit 32: Residential portfolio to generate significant cash flows…

Project	Location	Total Area (msf)	Area Launched (msf)	Area Sold (msf)	Sales Value (₹ crore)	Average Realisation (₹/ sq ft)	Collections (₹ Crore)	Balance Receivables	Inventory*	New launches*	Total cash inflows	Cash outflow	Net cash inflow
OBW	Bengaluru	2.2	1.48	1.26	1,252.9	9,954	1,146	107.3	220.0	720.0	1,047.3	470.0	577.3
Kessaku	Bengaluru	0.99	0.57	0.25	375.7	15,268	248	127.6	486.4	638.4	1,252.4	405.9	846.5
The Crest	Chennai	0.53	0.53	0.44	285.3	8,736	365	(79.3)	78.3	-	(1.0)	26.5	(27.5)
Total		**3.72**	**2.58**	**1.95**	**1,913.9**	**9,815**	**1,758.3**	**155.6**	**784.7**	**1,358.4**	**2,298.7**	**902.4**	**1,396.3**

Source: Company, ICICI Direct Research

**calculated using current realization*

Prudently increases stakes across subsidiaries; future cash flow to be utilised for expansion plans…

During its initial retail portfolio expansion time in 2010, the company had lower stakes in various subsidiaries to fund the expansion. Over the past few years, PML has prudently deployed its surplus cash flows to make value-accretive and progressive stake acquisitions through minority buy-outs.

Exhibit 33: Surplus cash generation used to buy-out minority stake

	FY13	FY14	FY15	FY16	FY17	FY18
EBITDA	263.1	678.4	762.0	786.9	846.9	777.4
Less: Interest	143.0	345.0	395.6	430.5	423.0	347.6
OCF	120.1	333.4	366.4	356.4	423.9	429.8
Minority Buyouts	-	314.5	268.9	239.0	240.0	265.0

Source: Company, ICICIdirect.com Research

With this, PML has consolidated its holdings in several subsidiaries and got absolute control of most of its assets. Now, with minority stake buy-outs completed, the company would be using its future free cash-flows to fund its next leg of growth. It would be deploying cash to fund expansion of its retail and commercial portfolio majorly.

Exhibit 34: PML's stake in subsidiaries as of FY18

Subsidary	Development Name	2010	March'18
Offbeat Developers	PMC Mumbai	24%	100%
Vamona Developers	PMC Pune	59%	100%
Clasic Mall	PMC Chennai	31%	50%
Gangetic Hotels	Courtyard by Marriot (Agra)	21%	100%
Pallazio Hotels	The St. Regis (Mumbai)	53%	73%
Alliance	Fountainhead (Pune)	58%	100%
Clasic Housing	Crest A, B	34%	50%
Island Star	PMC Bangalore	28%	51%
Palladium Construction	One Bangalore West & Kessaku	70%	100%
Big Apple Real Estate (BARE)	Phoenix United - Lucknow & Bareilly	73%	100%
Graceworks Realty & Leisure	Phoenix Paragon Plaza (Mumbai)	44%	100%

Source: Company, ICICI Direct Research

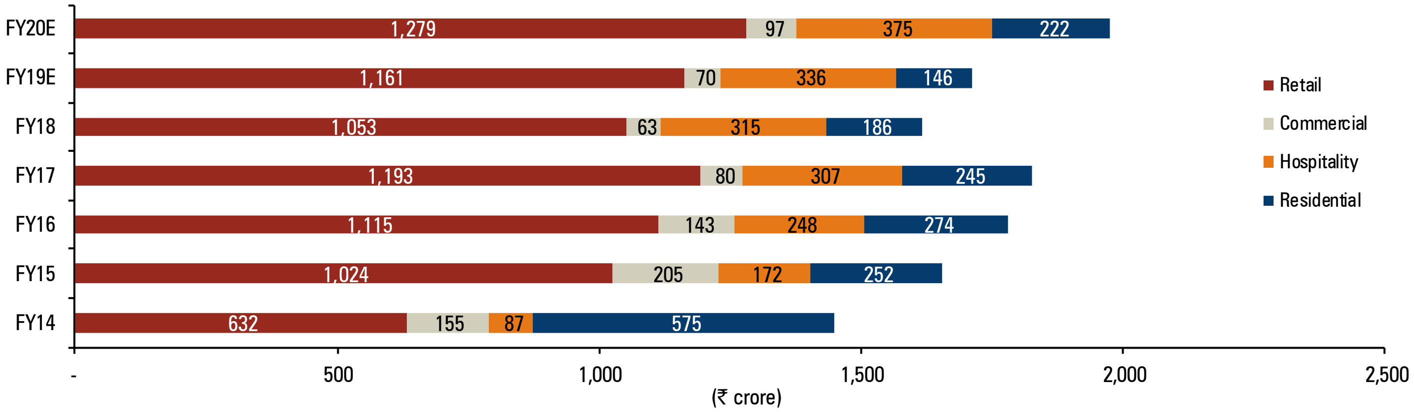
Financials

Revenues to grow at 10.4% CAGR in FY18-20E…

We expect PML's revenues to grow at a CAGR of 10.4% to ₹ 1973.1 crore in FY18-20E

Several of PML's malls began operations in 2012-13, which led to its robust revenue growth of 28.1% CAGR to ₹ 1619.8 crore in FY13-18. Currently, PML is going through an expansion phase in both its retail and commercial portfolio. While its retail portfolio is expected to increase from 5.9 msf to 10.6 msf, its commercial portfolio is expanding from 1.16 msf to 2.93 msf. However, it would take four to five years for this expansion to be completed. Hence, we expect revenues to grow moderately at 10.4% CAGR to ₹ 1973.1 crore in FY18-20E. This growth would improve significantly, once all assets become operational.

Exhibit 35: Revenue trend…



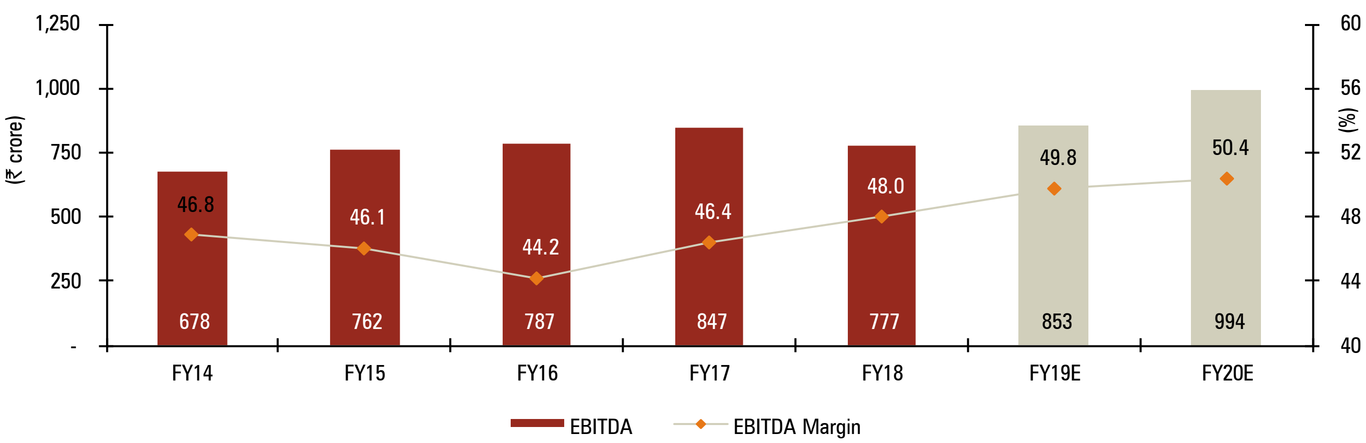
Source: Company, ICICI Direct Research

EBITDA margin to expand 240 bps in FY18-20E…

We expect a 240 bps expansion in margin to 50.4% in FY20E from 48.0% in FY18

EBITDA is expected to grow at 13.1% CAGR to ₹ 994.3 crore in FY18-20E on the back of anticipated topline growth and a gradual improvement in EBITDA margins. EBITDA margins are expected to improve from 48.0% in FY18 to 50.4% in FY20E on the back of a margin revival in the retail division. Retail division (that contributed 74.7% to EBITDA in FY18) margins are expected to improve from 59.0% in FY18 to 61.4% in FY20E on the back of improvement in PMC Mumbai & HSP Palladium margins.

Exhibit 36: EBITDA trend…



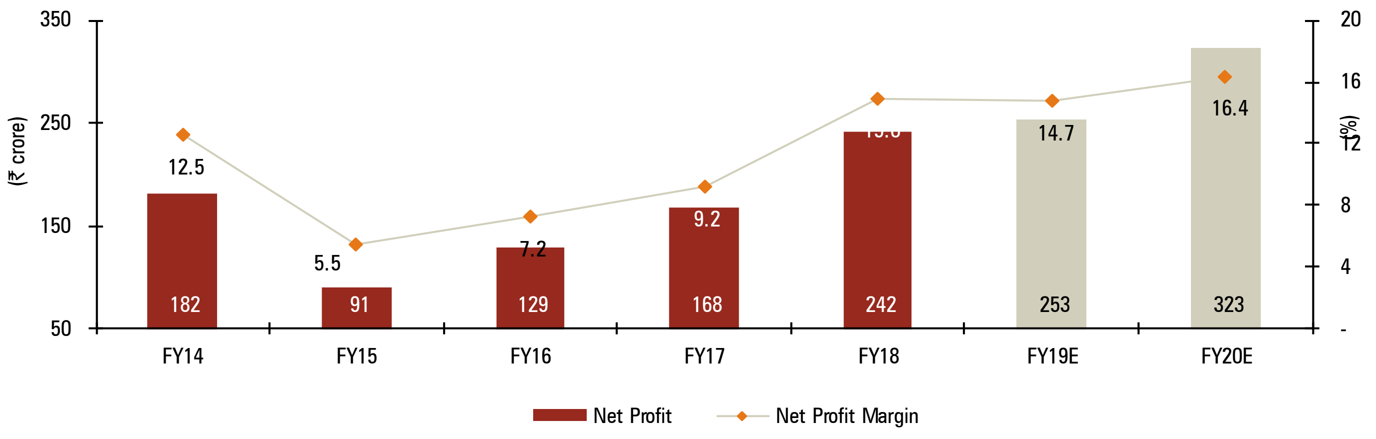
Source: Company, ICICI Direct Research

We expect the bottomline to grow at 15.5% CAGR to ₹ 323.2 crore in FY18-20E on the back of topline growth and expansion in EBITDA margins

PAT to grow at 15.5% CAGR in FY18-20E…

Historically, the bottomline grew at 7.5% CAGR to ₹ 242.2 crore in FY14-18. However, we expect bottomline growth to pick up pace with strong topline growth and margin expansion. Hence, we expect the bottomline to grow robustly at 15.5% CAGR to ₹ 323.2 crore in FY18-20E.

Exhibit 37: PAT growth trend…

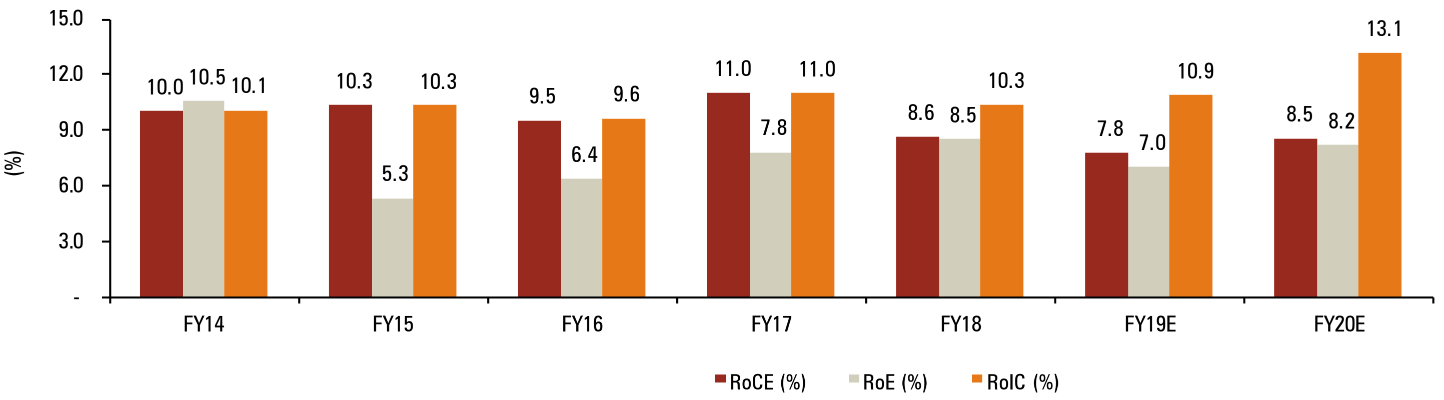


Source: Company, ICICI Direct Research

Return ratios to sustain at current levels…

Given the expansion, the company is going through in its retail and commercial portfolio, we expect return ratios to sustain at current levels. We expect RoE, RoCE at 8.2%, 8.5% in FY20E against current levels of 8.5%, 8.6%, respectively.

Exhibit 38: Return ratios trend…



Source: Company, ICICI Direct Research

Risks & Concerns

E-commerce threat…

PML derives a majority of revenues from the retail segment (~65% in FY18). Hence, its rental income from the retail division is linked to consumption of malls. With the advent of e-commerce, online shopping could impact sales (consumption) of tenants. This could indirectly impact PML's lease revenues. Nonetheless, so far, we have not seen any major impact of the same on PML's current portfolio.

Rise in interest rates…

Currently, the cost of debt for PML is at ~9%. However, with every 1% increase in interest rates, profitability would be impacted by 8-10%. Furthermore, it would not only impact profitability as interest rates would also have a bearing on WACC and cap rate, which would ultimately impact the valuations of assets. We have also run the sensitivity of WACC and cap rate on PML. For every 1% change in cap rate & WACC, it would impact our fair value by 11-15%.

Failure to generate sufficient footfalls at malls…

PML is expanding its retail portfolio aggressively where it is increasing from 6 msf to 10.6 msf. However, with multiple malls in same cities and increasing competition from other malls operating in the neighbourhood, footfalls may get impacted. Also, with higher competition and aggressive expansion by peers, occupancy could also take a hit or rentals may fall with oversupply in a particular area. If PML is unable to generate enough footfalls or attract reasonable rentals, it would impact its entire investment in the expansion of its retail business.

Delay in execution of new projects to hinder growth…

PML is going through significant expansion in its retail and commercial portfolio, which would drive its next phase of growth. However, any delay in execution of these projects would not only lead to cost escalations but also hamper PML's next leg of growth.

Loss of big tenant at malls in initial years…

PML has eight operational malls with a leasable area of 6 msf spread across six cities. Typically, in any mall, ~30% space is occupied by anchor clients/tenants. Hence, if PML loses some anchor clients in the initial years of malls, it would impact its occupancy at malls, which would impact its profitability.

Mall development in vicinity…

PML has operational and under-development malls in prime locations of Tier-I and Tier-II cities in India. While the company has unique mall offerings, development of more malls by other developers in the vicinity could potentially impact the consumption at PML's malls and thereby impact its rental income.

We initiate coverage on PML with a **BUY** recommendation and a target price of ₹ 775/share

Valuation

At the CMP, PML is trading at 14.1x FY20E EV/EBITDA. The company has quality operational assets across its portfolio. Going ahead, expansion of its retail and commercial assets would lead its next leg of growth. Given the asset light nature of expansion, we also expect the balance sheet to remain lean. Given its unique asset portfolio and robust expansion plans, we believe current valuations are attractive. Hence, we initiate coverage on the stock with a target price of ₹ 775/ share.

Exhibit 39: SOTP Valuation…

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Value (₹ crore)	Value/ share (₹/ share)
Retail	**Leasable area (msf)**					
Retail Operational	5.9	11464	3386	8078	6575	430
Retail under construction	4.5	4370	597	3773	2376	155
Retail Total	**10.4**	**15,834**	**3,983**	**11,851**	**8,951**	**585**
Commercial	**Leasable area (msf)**					
Commercial Operational	1.0	1259	115	1144	1027	67
Commercial under construction	1.8	491	0	491	474	31
Commercial Total	**2.8**	**1,750**	**115**	**1,635**	**1,502**	**98**
Hospitality	**No of keys**					
Hospitality Total	**588**	**1,993**	**599**	**1,394**	**1,027**	**67**
Residential	**Saleable area (msf)**					
Residential Total	**3.7**	**701**	**111**	**553**	**429**	**28**
Grand Total	**17.0**	**20,278**		**15,433**	**11,908**	**777**
Rounded Off target price						**775**

Source: Company, ICICI Direct Research

Current MCap does not factor in value of under construction retail & commercial portfolio

Current MCap does not factor in expansion of retail & commercial asset…

PML's current valuations are factoring in only value of its operational retail & commercial assets. In our view, PML's current valuation reflects only operational retail & commercial asset valuation and does not assign any value to its expansion portfolio (~24% of our valuation).

Exhibit 40: Current valuation factoring only operational retail and commercial assets…

Particulars	Value (₹ crore)
Current Market Cap	9,517
Residential business value	429
Hotel business value	1,027
Implied Mcap of retail & commercial	**8,061**
Operational Retail portfolio value	6,575
Operational Commercial portfolio value	1,027
Value of Operational Retail & Commercial portfolio	**7,602**
Under Construction Retail portfolio value	2,376
Under Construction Commercial portfolio value	474
Value of Under-Construction Retail & Commercial portfolio	**2,850**

Source: Company, ICICI Direct Research

Retail division valuation: We value the retail business at ₹ 585/ share. Of this, the operational portfolio has been valued at ₹ 430/ share while the upcoming portfolio is valued at ₹ 155/share. We have used the NAV methodology for valuing the retail assets. Furthermore, we have used a cap rate of 8.5% for operational assets (except HSP-Palladium) and 9% for under-construction assets.

Exhibit 41: Retail division valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Stake (%)	PML Value (₹ crore)	Value/ share (₹/ share)	% Share of total value
Retail Operational								
HSP - Palladium	0.7	3833.4	925.4	2908.0	100%	2908.0	190	
PMC Mumbai	1.1	1551.6	714.4	837.2	100%	837.2	55	
PMC Pune	1.2	1850.3	711.2	1139.1	100%	1139.1	74	
PMC Bangalore	1.0	1707.3	397.1	1310.2	51%	668.2	44	
PMC Chennai	1.0	1805.7	456.3	1349.4	50%	674.7	44	
Palladium Chennai	0.2	264.6	0.0	264.6	29%	77.5	5	
PU Lucknow	0.3	268.1	84.1	184.0	100%	184.0	12	
PU Bareilly	0.3	183.4	97.5	85.9	100%	85.9	6	
Retail Operational total	**5.9**	**11464.3**	**3386.0**	**8078.3**		**6574.6**	**430**	**56.7%**
Retail Under construction								
PMC Wakad	1.0	922.1	143.5	778.6	51%	397.1	26	
PMC Hebbal	1.1	1210.7	157.9	1052.9	51%	537.0	35	
PMC Lucknow	0.9	1044.7	111.1	933.6	100%	933.6	61	
PMC Indore	0.9	541.6	97.7	444.0	51%	226.4	15	
PMC Ahmedabad	0.6	651.0	87.2	563.8	50%	281.9	18	
Retail under construction total	**4.5**	**4,370**	**597**	**3,773**	**-**	**2,376**	**155**	**20.5%**
Retail Total	**10.4**	**15,834**		**11,851**		**8,951**	**585**	**77.1%**

Source: Company, ICICI Direct Research

Our sensitivity analysis indicates that every 1% change in our cap rate is likely to impact our valuation of ₹ 775/ share by 11-15%. Furthermore, every 1% change in our WACC assumption is likely to impact 3-4% to our valuation.

Exhibit 42: Sensitivity analysis of cap rate to retail operational portfolio…

	Retail - Oerational			
	HSP	PMC	Others	Total
6.5%	267.0	517.4	33.3	1,030.0
7.5%	223.4	435.1	27.3	890.0
8.5%	**190.0**	**372.1**	**22.7**	**775.0**
9.5%	163.6	322.3	19.1	690.0
10.5%	142.3	282.1	16.1	620.0

Source: Company, ICICI Direct Research

Exhibit 43: Sensitivity analysis of WACC to retail under development portfolio…

	Retail - Under Development					
	Wakad	Hebbal	ıhmedabad	Lucknow	Indore	Total
11.0%	33.6	44.8	23.8	74.9	18.8	840.0
12.0%	29.6	39.7	20.9	67.6	16.7	805.0
13.0%	**25.9**	**35.1**	**18.4**	**61.0**	**14.8**	**775.0**
14.0%	22.7	30.9	16.1	55.0	13.1	750.0
15.0%	19.7	27.2	14.1	49.6	11.5	725.0

Source: Company, ICICI Direct Research

Commercial division valuation: We have valued the commercial business at ₹ 98/share. Of this, the operational portfolio has been valued at ₹ 67/share while the upcoming portfolio has been valued at ₹ 31/share. We have valued the commercial portfolio using cap rate of 8.5% and WACC of 13%.

Exhibit 44: Commercial division valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Stake (%)	PML Value (₹ crore)	Value/ share (₹/ share)	% Share of total value
Commercial								
Centrium	0.1	119.0	0.0	119.0	100%	119.0	8	
Art Guild House	0.6	672.4	-	672.4	100%	672	44	
Phoenix Paragon Plaza	0.4	467.5	115.1	352.4	67%	236.1	15	
Commercial Operational	**1.0**	**1258.9**	**115**	**1143.8**	**-**	**1,027**	**67**	**8.9%**
PMC Viman Nagar, Pune Phase I	0.2	123.0	-	123.0	100%	123	8	
PMC Viman Nagar, Pune Phase II	0.5	189.9	0.0	189.9	100%	189.9	12	
PMC Chennai	0.4	126.8	-	126.8	100%	127	8	
Bengaluru	0.7	51.3	0.0	51.3	67%	34.3	2	
Commercial under construction	**1.8**	**491**	**-**	**491.1**	**-**	**474**	**31**	**4.1%**
Commercial Total	**2.8**	**1,750**	**115**	**1,635**	**-**	**1,502**	**98**	**12.9%**

Source: Company, ICICI Direct Research

As per our sensitivity analysis, every 1% change in cap rate of the commercial portfolio is likely to impact our commercial asset portfolio by ~1% and our overall target price by ~0.5%. Every 1% change in WACC is likely to have ~1% impact on our commercial portfolio valuation and our target price by ~0.5%.

Exhibit 45: Sensitivity analysis of cap rate & WACC to commercial portfolio valuations…

WACC(%) \ Cap rate (%)	6.5%	7.5%	8.5%	9.5%	10.5%
11%	144	129	118	109	102
12%	131	118	108	100	93
13%	120	107	**98**	91	85
14%	109	98	89	83	77
15%	100	89	82	75	70

Source: Company, ICICI Direct Research

Exhibit 46: Sensitivity analysis of cap rate & WACC to overall target price…

WACC(%) \ Cap rate (%)	6.5%	7.5%	8.5%	9.5%	10.5%
11%	825	810	795	790	780
12%	810	795	785	780	770
13%	800	785	**775**	770	765
14%	790	775	770	760	755
15%	780	770	760	755	750

Source: Company, ICICI Direct Research

Hospitality division valuation: We have valued the hospitality assets at ₹ 67/ share. We have used EV/room methodology to value these assets. We have given EV/EBITDA of 14x to St. Regis and EV/Room of ₹ 1 crore to Courtyard.

Exhibit 47: Hospitality division valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Stake (%)	PML Value (₹ crore)	Value/ share (₹/ share)	% Share of total value
Hospitality								
St Regis	395	1800.1	531.2	1268.9	73%	926.3	60	
Courtyard	193	193.0	67.7	125.3	80%	100.2	7	
Hospitality Total	**588.0**	**1,993**	**599**	**1,394**		**1,027**	**67**	**8.6%**

Source: Company, ICICI Direct Research

Residential division valuation: We have valued the residential portfolio at ₹ 28/ share. We have used the NAV methodology to value these assets. We have considered a discount rate of 13%. We have considered 5% per annum escalation in realisation and construction cost each.

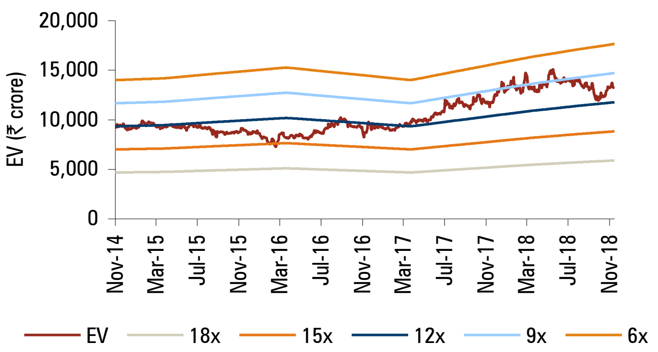
Exhibit 48: Residential division valuation

Type	Parameters	GAV (₹ crore)	Debt (₹ crore)	NAV (₹ crore)	PML Stake (%)	PML Value (₹ crore)	Value/ share (₹/ share)	% Share of total value
Residential								
One Bengaluru West, Towers 1-6	1.48	72.9	37.0	35.9	80%	28.7	2	
One Bengaluru West, Towers 7-9	0.7	164.9	37	128	80%	102	7	
Kessaku, Bengaluru Phase I	0.57	254.0	37.0	217.0	80%	173.6	11	
Kessaku, Bengaluru Phase II	0.4	166.7	37	130	80%	104	7	
The Crest, Chennai	0.53	42.1	0.0	42.1	50%	21.0	1	
Residential Total	**3.7**	**701**	**111**	**553**	**-**	**429**	**28**	**3.7%**

Source: Company, ICICI Direct Research

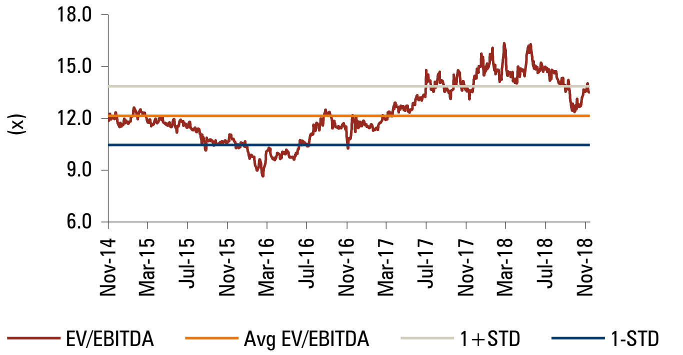
In terms of EV/EBITDA, PML has traded at average EV/EBITDA of 12.1x in the last four years. Currently, it is trading at 14.1x. We believe PML may command better multiple given the robust growth ahead amid expansion with strong cashflow visibility.

Exhibit 49: One year forward EV/EBITDA…



Source: Company, ICICI Direct Research

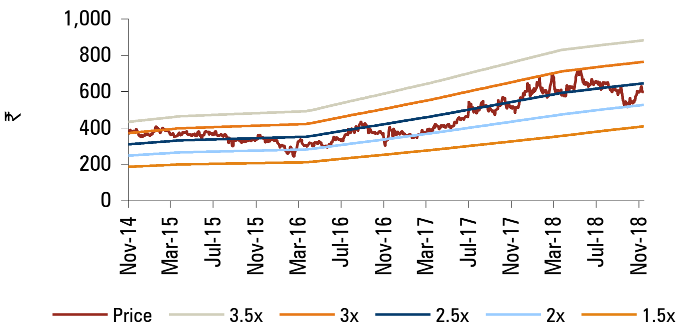
Exhibit 50: Average one year forward EV/EBITDA multiple…



Source: Company, ICICI Direct Research

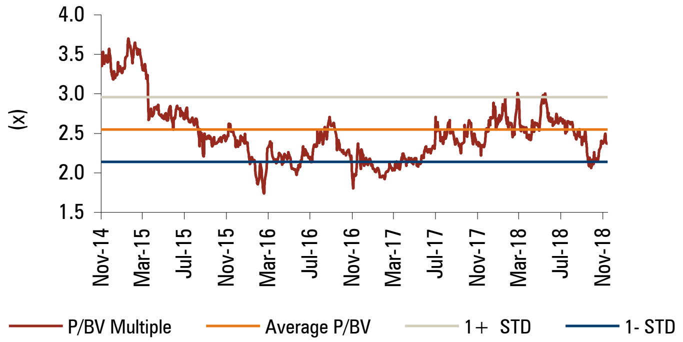
In terms of P/BV, PML has traded at average P/BV of 2.6x in the last four years. Currently, it is trading at 2.3x P/BV. We believe PML may command better multiple given strong cashflow visibility from its current businesses and strong growth ahead amid its expansion mode.

Exhibit 51: One year forward P/BV band…



Source: Company, ICICI Direct Research

Exhibit 52: Average one year forward P/BV multiple…



Source: Company, ICICI Direct Research

Global Peers Valuation

We have tried to compare PML with large global retail mall players and REIT players, which are significantly higher in size compared to PML.

Exhibit 53: Global Perspective…

	GLA (msf)	Rental Income	EBITDA	PAT	Dividend Yield (%)
North America					
Simon Property	191.0	5,120.4	75.1	2,244.9	4.4
Regency Center Corporation	44.0	958.2	58.3	154.7	3.4
Federal Investment Trust	19.0	873.8	64.0	221.8	3.1
GGC REIT	119.0	2,134.0	67.0	667.0	NA
Sona Sierra	3.5	103.1	50.9	79.0	1.5
Europe					
Klepierre	6.2	1,396.3	74.8	1,692.0	6.8
Intu	NA	789.0	62.8	262.0	5.5
APAC					
Capitaland	16.0	470.5	63.0	293.4	5.3
AREIT	3.0	547.3	66.2	309.0	6.3
Link REIT	13.0	1,141.1	72.2	2,308.7	3.5
Phoenix Mills	6.0	104.7	86.7	NA	

Source: Bloomberg, ICICI Direct Research

While North American and APAC players are trading at average EV/EBITDA multiple of 17.1x, 20.3 x respectively, PML is trading at EV/EBITDA multiple of 13.1x. Also, North American & APAC players have an average cap rate of 5%, 4.2%, respectively, vis-a-vis PML's cap rate of 7.5%.

Exhibit 54: Global peers valuation…

	Mkt cap ($ in million)	FY18 Revenues (million $)	FY18-20E CAGR		EV/EBITDA			EV/Revenues			Price /FFO			Implied cap rate (%)
			Revenues	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	
North America														
Simon Property	5,630.5	5,619.5	1.5%	4.9%	14.1	13.8	13.4	15.1	14.5	14.0	15.0	14.5	13.9	5
Regency Center Corporation	11,139.4	984.3	9.5%	34.3%	19.6	19.0	17.4	13.6	13.3	12.8	16.5	16.0	15.4	5
Federal Investment Trust	9,707.2	892.2	8.1%	3.8%	22.5	21.3	20.3	14.5	13.7	12.7	20.8	20.1	19.0	4
Sona Sierra	366.0	95.9	7.3%	14.1%	11.8	11.6	11.4	9.1	8.4	7.9	14.8	13.5	10.3	NA
North America Average							**15.6**			**11.9**			**14.7**	**5**
Europe														
Klepierre	11,139.5	1,607.1	-3.6%	25.2%	20.5	19.9	19.3	17.2	16.7	16.1	11.4	10.9	10.5	5.6
Intu	3,221.7	821.0	-71.8%	-0.4%	17.9	17.6	17.8	11.5	11.2	11.7	12.8	12.2	14.6	5.6
Europe Average							**18.6**			**13.9**			**12.5**	**5.6**
APAC														
Capitaland	5,651.6	494.5	1.8%	0.8%	21.7	21.6	20.3	14.5	14.1	13.0	17.5	19.7	18.1	4.1
AREIT	5,556.0	645.0	2.5%	0.3%	19.3	18.3	17.8	12.8	12.4	12.1	NA	15.6	15.1	4.3
Link REIT	20,569.4	1,283.5	5.7%	11.5%	NA	25.1	22.8	16.7	18.0	16.4	NA	27.2	24.3	4.2
APAC Average							**20.3**			**13.8**			**19.2**	**4.2**
Phoenix Mills	**1,269.1**	**223.7**	**12.6%**	**17.1%**	**16.1**	**14.5**	**13.1**	**7.7**	**7.3**	**6.5**	**20.9**	**19.2**	**16.9**	**7.4***

Source: Bloomberg, ICICI Direct Research

**based on our calculations; company does not report this number*

Financial Tables

Exhibit 55: Profit & loss account

₹ crore	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1,779.5	1,824.6	1,619.8	1,713.0	1,973.1
Other Income	30.2	47.2	55.6	68.6	72.9
Total revenues	1,809.8	1,871.8	1,675.4	1,781.6	2,046.0
Raw Material Expenses	284.8	246.6	131.9	248.7	286.5
Employee Cost	124.4	140.3	147.3	131.7	151.7
Other Expenditure	583.4	590.8	563.2	480.0	540.8
Total Operating Expenditure	992.6	977.7	842.4	860.4	978.9
EBITDA	786.9	846.9	777.4	852.6	994.3
Interest	442.5	423.0	347.6	351.3	354.9
Depreciation	177.3	195.3	198.3	203.2	210.3
PBT	158.7	275.8	287.1	366.7	501.9
Tax	76.7	85.8	75.8	110.0	165.6
Reported PAT	128.9	167.9	242.2	252.1	322.8
EPS (₹)	8.4	11.0	15.8	16.5	21.1

Source: Company, ICICI Direct Research

Exhibit 56: Balance sheet

₹ crore	FY16	FY17	FY18	FY19E	FY20E
Equity Capital	30.6	30.6	30.6	30.6	30.6
Reserves & Surplus	1,996.7	2,119.4	2,821.1	3,571.1	3,920.1
Networth	2,027.3	2,150.1	2,851.7	3,601.8	3,950.7
Total Debt	3,889.5	3,625.5	3,666.5	4,151.7	4,569.0
Other financial liabilities	284.5	299.3	367.8	388.9	378.4
Deferred Tax Liability	35.5	-	0.2	0.2	0.2
Source of Funds	6,716	6,355	7,352	9,238	10,036
Gross Block	5,026.9	5,006.8	6,324.2	6,349.2	6,374.2
Less: Accumulated Dep	678.9	835.5	1,030.3	1,233.5	1,443.8
Net Block	4,347.9	4,171.3	5,293.9	5,115.8	4,930.4
Capital WIP	194.9	327.7	502.5	2,357.3	3,079.0
Total Fixed Assets	4,542.8	4,499.1	5,796.4	7,473.1	8,009.4
Investments	139.7	409.6	497.8	497.8	497.8
Inventories	1,324.0	945.5	661.5	680.5	810.9
Trade Receivables	278.6	147.0	129.2	136.6	157.3
Loans & Advances	18.9	34.0	31.6	33.5	38.5
Cash & Bank Balances	163.0	81.2	44.9	33.5	120.9
Other Current Assets	242.9	199.1	247.3	261.5	301.3
Total Current Assets	2,048.7	1,406.8	1,445.7	1,145.6	1,429.0
Trade Payable	126.7	111.6	104.8	106.1	116.8
Provisions	55.0	78.8	110.0	107.0	108.1
Other Current Liabilities	562.1	463.2	930.3	422.4	432.5
Total Current Liabilities	743.7	653.5	1,145.1	635.5	657.4
Net Current Assets	1,305.0	753.3	300.6	510.1	771.5
Application of Funds	6,715	6,355	7,352	9,238	10,036

Source: Company, ICICI Direct Research

Exhibit 57: Cash flow statement

₹ crore	FY16	FY17	FY18	FY19E	FY20E
Profit after Tax	128.9	167.9	242.2	252.1	322.8
Depreciation	177.3	195.3	198.3	203.2	210.3
Interest paid	442.5	423.0	347.7	351.3	354.9
Cash Flow before wc changes	826.4	872.2	793.1	921.2	1,067.2
Net Increase in Current Assets	(326.3)	652.6	175.9	(42.5)	(195.9)
Net Increase in Current Liabilities	132.3	(67.3)	569.6	(488.5)	11.4
Net cash flow from op. activities	497.2	1,413.7	1,517.7	280.3	717.0
Purchase of Fixed Assets	(386.2)	(185.8)	(1,501.5)	(1,879.8)	(746.7)
(Purchase)/Sale of Investments	4.9	(266.2)	(1,732.4)	-	-
Net cash flow from inv. activities	(388.9)	(353.6)	(1,824.9)	(1,521.2)	(718.1)
Proceeds from Long Term Borrowings	1,485.0	506.5	1,635.6	485.2	417.3
Interest paid	(446.9)	(432.1)	(351.6)	(351.3)	(354.9)
Net cash flow from fin. activities	(70.7)	(1,102.9)	277.4	1,229.5	88.5
Net Cash flow	37.6	(42.7)	(29.8)	(11.4)	87.4
Opening Cash	57.0	106.8	64.1	44.9	33.5
Closing Cash	106.8	64.1	44.9	33.5	120.9

Source: Company, ICICI Direct Research

Exhibit 58: Ratio Analysis

₹ crore	FY16	FY17	FY18	FY19E	FY20E
Per Share Data					
Reported EPS	8.4	11.0	15.8	16.5	21.1
Cash EPS	20.0	23.7	28.8	29.7	34.8
BVPS	132.4	140.4	186.2	235.2	258.0
Operating Ratios					
EBITDA / Net Sales	44.2	46.4	48.0	49.8	50.4
PAT / Net Sales	7.2	9.2	15.0	14.7	16.4
Return Ratios					
RoE	6.4	7.8	8.5	7.0	8.2
RoCE	9.5	11.0	8.6	7.8	8.5
RoIC	9.6	11.0	10.3	10.9	13.1
Valuation Ratios					
EV / EBITDA	16.8	15.4	16.5	16.0	14.1
P/E	73.9	56.7	39.3	37.8	29.5
EV / Net Sales	7.4	7.2	7.9	8.0	7.1
Market Cap / Sales	5.4	5.2	5.9	5.6	4.8
Price to Book Value	4.7	4.4	3.3	2.6	2.4
Turnover Ratios					
Asset turnover	0.3	0.3	0.2	0.2	0.2
Gross Block Turnover	0.3	0.3	0.2	0.3	0.3
Solvency Ratios					
Net Debt / Equity	1.8	1.6	1.2	1.1	1.1
Current Ratio	2.6	2.0	0.9	1.8	2.0
Quick Ratio	0.8	0.6	0.4	0.7	0.8

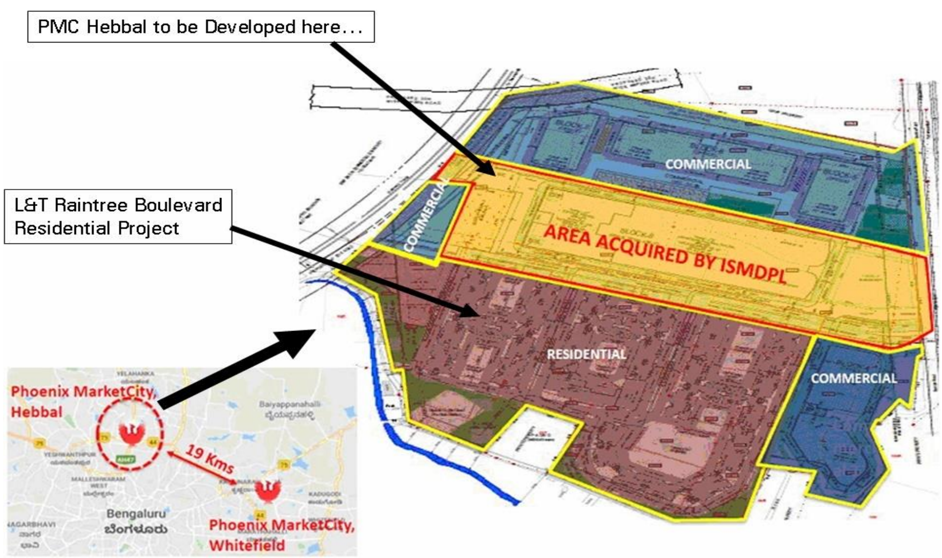
Source: Company, ICICI Direct Research

Annexure 1: Strategic land/asset buy-out for retail expansion

Acquired Hebbal land strategically…

PMC Hebbal is strategically located. This would generate strong footfalls given the amount of residential and commercial development lined up in its surroundings.

Exhibit 59: PMC Hebbal Site Overview

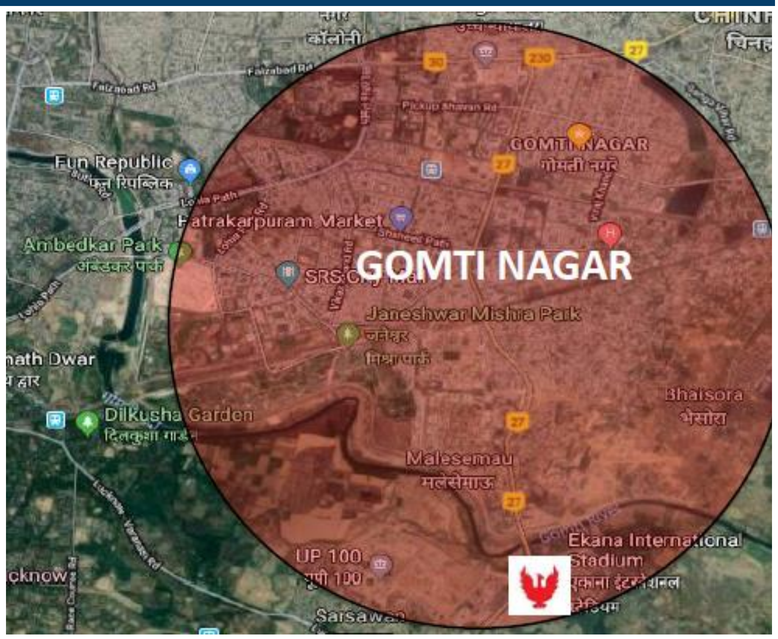


Source: Company, ICICI Direct Research

Major developments in surroundings to drive footfalls at Lucknow mall…

PMC Lucknow is another well planned acquisition by PML. It is located in Lucknow’s prime area Gomti Nagar. Major developments in its surroundings include Ekana International stadium, Taj Gomti Nagar, HCL IT City, High Court of Judicature, Gomti Nagar.

Exhibit 60: Lucknow site overview…



Source: Company, ICICI Direct Research

PMC Indore to be largest mall in surroundings…

PMC Indore is located in the growth areas of Indore, which will give it an edge over few small retail malls in the neighbourhood. This would be the largest mall (1.1 msf) in the surroundings with only four small-sized shopping centres clearly indicating inadequate retail space with current largest being Treasure Island (0.4 msf). The city lacks a mall with high-quality retail, F&B, and entertainment experience.

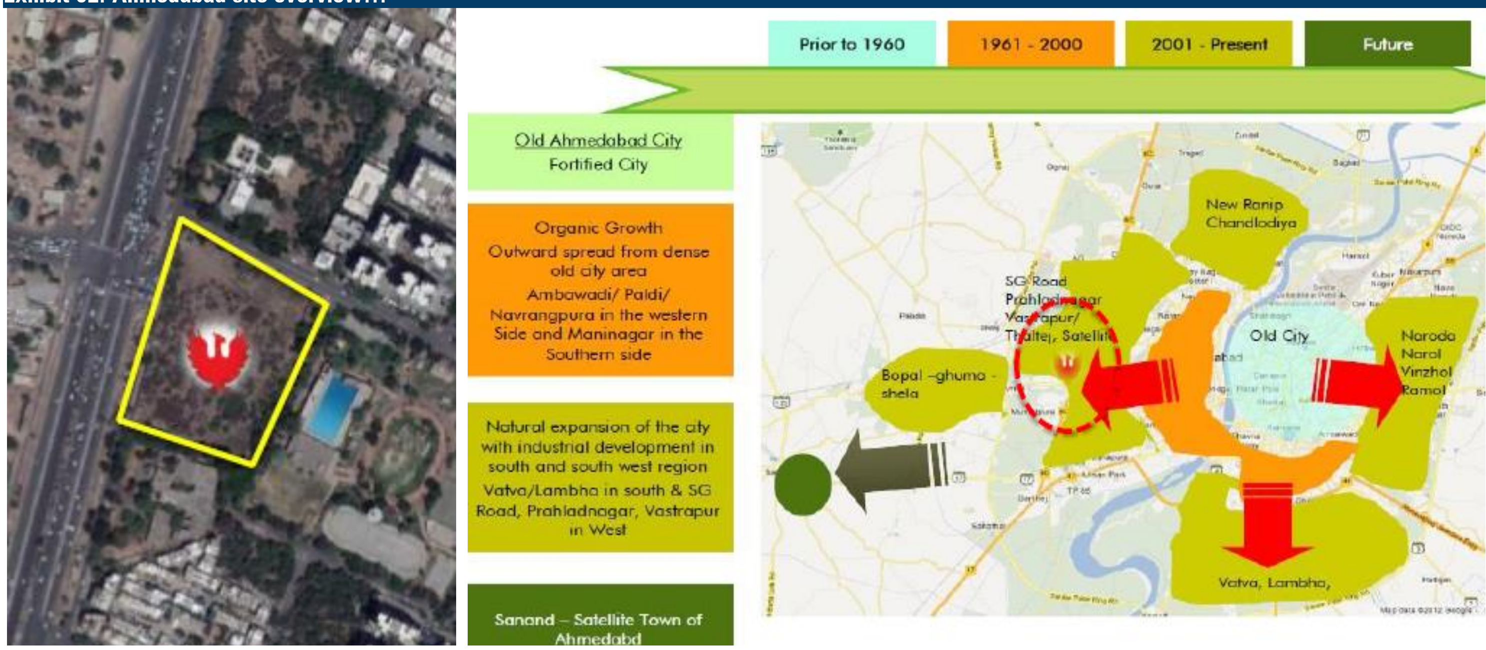
Exhibit 61: Indore site overview…

Source: Company, ICICI Direct Research

PMC Ahmedabad to be a prime mall…

Thaltej, where the land parcel is located, is fastest growing prime residential area in Ahmedabad at a distance of ~4 km from Western Ahmedabad's other prime residential areas like Satellite, Bodakdev and Vastrapur. PML Ahmedabad will cater to up-market residential areas of Western Ahmedabad and catchment areas of CG Road, Ashram Road and Navrangpura that are all within 20-22 minutes driving distance.

Exhibit 62: Ahmedabad site overview…



Source: Company, ICICI Direct Research

Annexure 2: Commercial Properties description

The Art Guild House: Apart from its unique location on top of PMC Mumbai, it has six levels of office spaces with two levels of basement parking, premium amenities and artful surroundings. It is an independent green building, which offers scalability from 2,000 sq ft to 1.0 lakh sq ft on a single floor.

Centrium: It is an ultra-modern commercial destination with 0.28 million sq ft saleable area with floor plates of 40,000 sq ft each. It has an exclusive entrance lobby, centralised air-conditioning and 100% power back-up in common areas.

Phoenix Paragon Plaza: It is a part of Phase 2 at PMC Mumbai. This state-of-the-art complex is spread across 0.42 million sq ft, has six levels and is housed within a mix of retail and high-street brands. The total saleable area at Phoenix Paragon Plaza comprises a retail portion of 0.18 million sq ft, with shop sizes ranging between 80 sq ft and 500 sq ft. The asset is in the company of the most premium retail, entertainment and food brands, premium boutique office spaces, shops and cafes. There are dedicated zones for electronics, bridal wear, fashion and accessories, a dedicated food court, restaurants and ample car parking space.

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Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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Phoenix Mills

9 November 2018

Reuters: PHOE.NS; Bloomberg: PHNX IN

2QFY19 Result Update

Earnings Driven By Lower Tax Expenses And Retail Rental Growth

Phoenix Mills (PML) reported a net profit of Rs620mn for 2QFY19, up 48.4% YoY and 3.9% QoQ. Residential sales stood at 0.05mn sqft in 2QFY19. Average realisation (YoY) in Crest Towers has been flattish. Average realisation for Kessaku and One Bangalore West at Rs15,268/sqft, up 3.3% YoY, and at Rs9,954, up 1% YoY, respectively, witnessed a marginal increase. Retail rental income at Rs2,400mn was up 17% on YoY basis. St. Regis reported ARR of Rs11,084, up 4% YoY, and an occupancy rate of 77% (industry is operating below 70%). Revenues and EBITDA of St. Regis grew 8% and 20% YoY to Rs667mn and Rs248mn, respectively. Earnings growth of PML was primarily driven by: 1) Lower tax expenses with an effective tax rate of 21%. 2) Strong retail rental income growth of 17% YoY. 3) Robust performance of St. Regis and Courtyard Marriot, Agra, as RevPar rose 11.6% and 148.3% YoY, respectively. We have retained our Buy rating on PML with a target price of Rs791.

Revenues increase and EBITDA margin expands YoY: Revenues for the quarter stood at Rs4,047mn, up 9.2% YoY. EBITDA at Rs1,982mn increased 11.2% YoY and 1.4% QoQ. EBITDA margin rose 83bps YoY and 168bps QoQ to 49%. Revenues and EBITDA growth on YoY basis was because of: 1) Retail rental income at Rs2,400mn in 2QFY19 growing 17% on YoY basis. 2) St. Regis and Courtyard Marriot, Agra, reporting RevPar growth of 11.6% and 148.3% YoY, respectively, leading to hotel income growth of 7.5% YoY.

Earnings up YoY supported by lower tax expenses: PML reported earnings of Rs620mn for 2QFY19, up 48.4% YoY and 3.9% QoQ. Earnings growth was primarily driven by lower tax expenses at Rs179mn, leading to an effective tax rate of 21%. Lower tax expenses were on account of MAT credit arising on gains from sale of shares worth Rs 980mn of Graphite India.

Decline in net debt-to-equity ratio to 1.4x not sustainable: Net-debt-to-equity ratio declined to 1.4x in 2QFY19 from 1.6x in 2QFY18. However, we believe that net-debt-to-equity ratio will increase with the rise in debt on beginning construction of malls in Bengaluru and Pune along with CPPIB (Canadian Pension Plan Investment Board). The mall construction is expected to start by FY19-end. However, the debt is likely to increase post exhaustion of the equity capital infused by CPPIB.

Rental income growth driven by rise in occupancy and rental rates: PMC (Phoenix Market City) Pune, PMC Bareilly and HSP (High Street Phoenix) are the malls that have outperformed and led to 17% YoY growth in rental income to Rs2,400mn in 2QFY19. 1) HSP rental income (exc. CAM) increased 18% YoY driven by 8% rise in rental rate to Rs378/sqft/month and the balance by occupancy rate touching 97% in 2QFY19 as compared to 86% in 2QFY18. 2) PMC Bareilly witnessed rental income growth of 29% YoY at Rs53mn. 3) PMC Pune's rental income at Rs385mn increased 16% YoY led by 12% increase in rental rate and the rise in occupancy rate by 4%. However, HSP witnessed EBITDA margin declining to 80% in 2QFY19 from 87% in 2QFY18, primarily led by upgradation expenses. The management has given guidance of 85%-90% margin by 4QFY19. Usually, upgradation expenses incurred for the first time are capitalised and any subsequent improvements that are of a similar nature are expensed. A sub-standard rental growth of 3.5% YoY of PMC Bengaluru was on account of the negative impact of ongoing construction of metro railway in front of the mall. Going forward, retail rental growth is expected to be driven by: 1) 25% 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 expected to begin operations in the next few quarters.

Hotel segment income increases with a healthy occupancy rate and rise in ARR: As hotel is a seasonal business, we have compared it on YoY basis. Occupancy rate of Courtyard Marriot, Agra, touched 65% in 2QFY19 as compared to 59%% in 2QFY18 and ARR rose to Rs3,811, up 35% YoY. St. Regis reported above-industry occupancy rate of 77% and ARR of Rs11,084, up 4.3% YoY, for 2QFY19. The management stated that from now on the focus will be more on the food and beverage component of hotel income.

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 target price of Rs791.

BUY

Sector: Real Estate

CMP: Rs605

Target Price: Rs791

Upside: 31%

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Key Data

Current Shares O/S (mn)	605.0
Mkt Cap (Rsbn/US$bn)	92.1/1.3
52 Wk H / L (Rs)	732/479
Daily Vol. (3M NSE Avg.)	128,425

Price Performance (%)

	1 M	6 M	1 Yr
Phoenix Mills	17.2	(2.9)	16.2
Nifty Index	2.4	(1.1)	2.9

Source: Bloomberg

Y/E March (Rsmn)	2QFY19	1QFY19	*QoQ (%)*	2QFY18	*YoY (%)*	2QFY19E	*Var. (%)*
Net sales	**4,047**	**4,132**	***(2.0)***	**3,706**	***9.2***	**4,338**	***(6.7)***
Cost of goods	(621)	(734)	*(15.4)*	(701)	*(11.4)*	(840)	*(26.1)*
Employee benefits expenses	(397)	(385)	*3.0*	(360)	*10.1*	(392)	*1.2*
Other expenses	(1,048)	(1,059)	*(1.0)*	(861)	*21.7*	(1,081)	*(3.0)*
EBITDA	**1,982**	**1,954**	***1.4***	**1,784**	***11.1***	**2,025**	***(2.1)***
EBITDAM (%)	***49.0***	***47.3***	-	***48.1***	-	***46.7***	-
Depreciation and amortisation	(506)	(499)	*1.5*	(510)	*(0.7)*	(509)	*(0.5)*
EBIT	**1,476**	**1,455**	***1.4***	**1,274**	***15.8***	**1,516**	***(2.7)***
EBITM (%)	**36.5**	**35.2**	-	**34.4**	-	**34.9**	-
Other income	287	273	*5.0*	272	*5.4*	180	*59.3*
Interest expenses	(917)	(847)	*8.3*	(856)	*7.2*	(863)	*6.3*
Profit before tax	**845**	**881**	***(4.1)***	**690**	***22.4***	**833**	***1.4***
Tax expenses	(179)	(235)	*(24.0)*	(267)	*(33.1)*	(272)	*(34.3)*
Effective tax rate (%)	*21.1*	*26.7*	-	*38.7*	-	*32.7*	-
Minority interest	(46)	(48)		(5)		(9)	
Reported net profit	**620**	**597**	***3.9***	**418**	***48.4***	**552**	***12.4***
NPM (%)	***15.3***	***14.4***	-	***11.3***	-	***12.7***	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Average retail rental rate

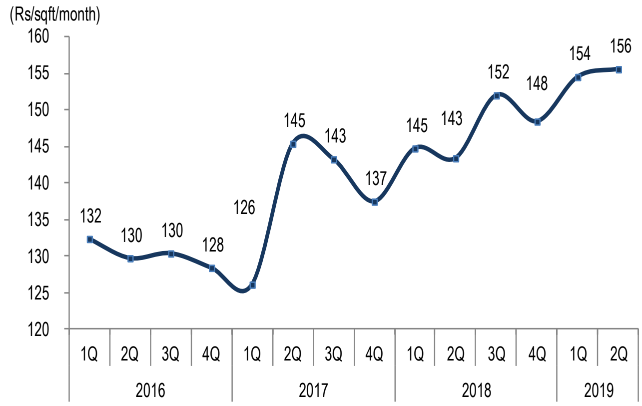
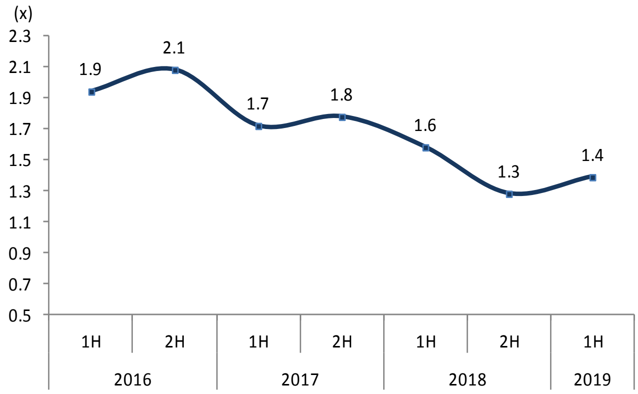
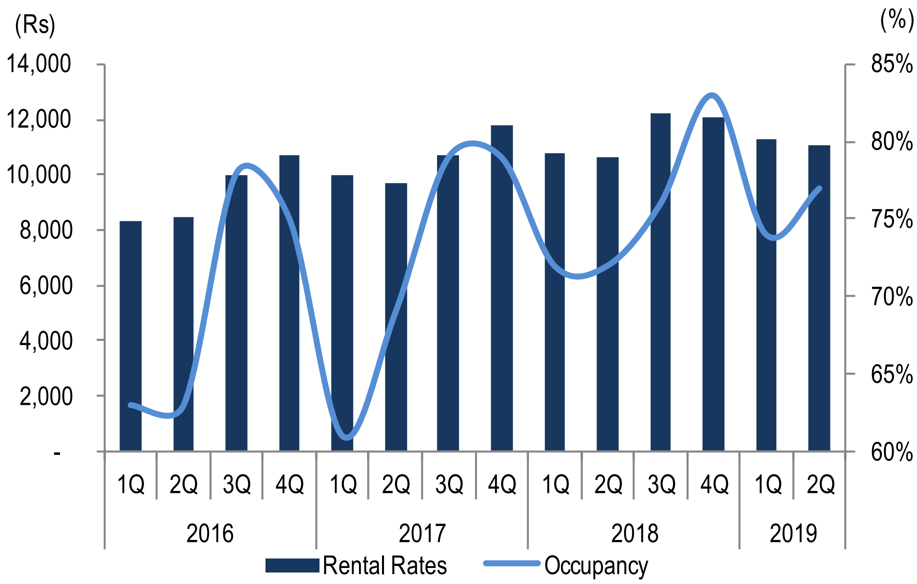


Exhibit 2: Net-debt-to-equity ratio



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	FY19E	FY20E	FY21E
Net sales	**18,246**	**16,198**	**17,490**	**19,833**	**22,338**
Growth YoY (%)	*2.6*	*(11.2)*	*8.0*	*13.4*	*12.6*
COGS	7,022	5,338	5,678	6,367	6,937
Operating costs	2,754	3,086	3,288	3,599	3,930
EBITDA	**8,469**	**7,774**	**8,524**	**9,867**	**11,472**
EBITDA growth (%)	***7.2***	***(8.2)***	***9.7***	***15.8***	***16.3***
EBITDA margin (%)	**46.4**	**48.0**	**48.7**	**49.8**	**51.4**
Depreciation	1,953	1,983	1,983	1,983	1,983
EBIT	**6,516**	**5,791**	**6,541**	**7,885**	**9,489**
EBIT (%)	***6.3***	***(11.1)***	***13.0***	***20.5***	***20.3***
Net interest expenses	3,905	3,294	3,482	4,068	4,562
Other income	146	375	100	100	100
Earnings before tax	**2,758**	**2,871**	**3,159**	**3,917**	**5,027**
Tax- total	858	758	1,043	1,293	1,659
Rate of tax (%)	*31.1*	*26.4*	*33.0*	*33.0*	*33.0*
Net profit	**1,900**	**2,113**	**2,117**	**2,624**	**3,368**
Minority interest	230	134	134	134	134
Share of profits from associates	10	442	422	478	560
Adjusted net profit	**1,679**	**2,422**	**2,405**	**2,969**	**3,794**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Profit after tax	1,679	2,422	2,405	2,969	3,794
Depreciation	1,953	1,983	1,983	1,983	1,983
Other income	(146)	(375)	(100)	(100)	(100)
Working capital changes	5,405	7,486	(1,436)	(1,031)	(915)
Operating cash flow	**8,891**	**11,516**	**2,852**	**3,821**	**4,762**
Capital expenditure	(1,504)	(14,956)	(9,300)	(9,300)	(9,300)
Net cash after capex	**7,387**	**(3,440)**	**(6,448)**	**(5,479)**	**(4,538)**
Changes in inv./loans and adv.	(8,953)	(6,256)	-	-	-
Others	6,080	6,053	1	-	-
Issue/ (buyback of equity shares)	22	25	-	-	-
Proceeds/repayment of borrowing	(4,002)	410	6,500	5,800	4,700
Other income	146	375	100	100	100
Dividend & dividend distribution tax	(83)	(442)	(439)	(542)	(692)
Change in deferred tax/ sec. dep.	(26)	1,048	300	300	300
Change in MI	(1,715)	1,865	-	-	-
Cash flow from financing	**422**	**9,332**	**6,462**	**5,658**	**4,408**
Total cash generation	**(1,144)**	**(364)**	**14**	**179**	**(130)**
Opening cash balance	1,956	812	449	463	642
Closing cash & bank balance	**812**	**449**	**463**	**642**	**512**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	306	306	306	306	306
Reserves and surplus	21,194	28,214	30,180	32,607	35,709
Net worth	**21,501**	**28,520**	**30,486**	**32,913**	**36,015**
Loans	36,255	36,665	43,165	48,965	53,665
Minority interest	2,797	4,661	4,661	4,661	4,661
Security deposits	2,858	3,501	3,801	4,101	4,401
Deferred tax liability	-	2	-	-	-
Total capital employed	**63,410**	**73,349**	**82,114**	**90,640**	**98,742**
Net fixed assets	45,016	57,990	65,307	72,624	79,941
Investments	4,096	8,290	8,290	8,290	8,290
Loans and advances	89	63	63	63	63
Other non-current assets	5,564	6,608	6,608	6,608	6,608
Total non-current assets	**45,016**	**57,990**	**65,307**	**72,624**	**79,941**
Trade payables	1,116	1,048	1,115	1,250	1,362
Advances from customers	2,321	1,553	2,101	2,645	2,763
Other liabilities	2,446	7,926	7,377	6,834	6,716
Provisions (current)	788	1,100	1,100	1,100	1,100
Total current liabilities	**6,671**	**11,627**	**11,694**	**11,829**	**11,941**
Inventories	9,455	9,455	9,455	9,455	9,455
Trade Receivables	1,470	1,470	1,470	1,470	1,470
Cash and bank balance	812	449	463	642	512
Loans and advances	340	316	316	316	316
Others	1,991	2,503	2,503	2,503	2,503
Total current assets	**14,068**	**11,175**	**12,692**	**14,037**	**14,933**
Deferred tax assets	**1,247**	**851**	**848**	**848**	**848**
Net current assets	**7,397**	**(452)**	**998**	**2,208**	**2,993**
Total capital employed	**63,410**	**73,349**	**82,114**	**90,640**	**98,742**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

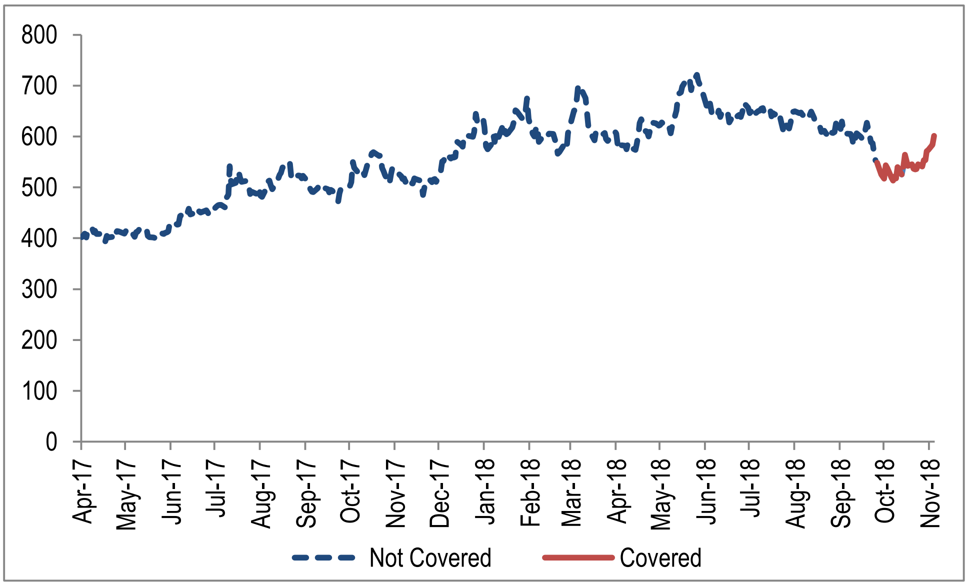
Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Profitability and return ratios					
EBITDA margin (%)	46.4	48.0	48.7	49.8	51.4
EBIT margin (%)	35.7	35.8	37.4	39.8	42.5
Net profit margin (%)	10.4	13.0	12.1	13.2	15.1
RoE (%)	7.8	8.5	7.9	9.0	10.5
RoCE (%)	10.3	7.9	8.0	8.7	9.6
Working capital & liquidity ratios					
Receivables (days)	29	29	40	40	40
Inventory (days)	490	451	480	480	480
Payables (days)	58	71	71	71	71
Current ratio (x)	2.1	1.0	1.1	1.2	1.3
Valuation ratios					
EV/sales (x)	7.2	8.2	8.0	7.3	6.7
EV/EBITDA (x)	15.4	17.2	16.4	14.8	13.1
P/E (x)	55.1	38.3	38.5	31.2	24.4
P/BV (x)	4.3	3.2	3.0	2.8	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
9 November 2018	Buy	605	791

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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