Sector Thematic

Real Estate

Ripe for consumption

COVID-19 has been a black swan event, which has hit the retail malls sector hard, both globally and locally. But consumption in the system remains subdued due to regulatory restrictions and personal safety preferences. We believe we are a vaccine away from normalcy, and it will be a hard road over the next 12-15 months. For well-capitalized organized players, it is a blessing in disguise to be able to (1) build inorganic assets at high cap rates (2) optimize/relook capital allocation, and (3) further gain market share through consolidation.

Foot ‘falls’ – provides attractive entry

In the past three months, Phoenix Mills Ltd (PML) has corrected 30% on the back of (1) COVID-led mall closures, (2) concerns over work from home, (3) likely correction in retail rents, and (4) concerns over the long road ahead to normalcy. However, we believe that consumption will mean revert once the vaccine is in place. Strong market positioning, marquee assets, and robust financial track record place PML in a position to tide over the current headwinds. We believe the company is 'ripe for consumption' and initiate coverage with a SOTP of Rs 828/sh.

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Real Estate - Retail

Ripe for consumption

COVID-19 has been a black swan event, which has hit the retail malls sector hard, both globally and locally. In the near term, this has led to asset values correcting 35-40% with concerns on survival of the modern-day consumption format. But consumption in the system remains subdued due to regulatory restrictions and personal safety preferences. We believe we are a vaccine away from normalcy, and it will be a hard road over the next 12-15 months. For well-capitalized organized players, it is a blessing in disguise to be able to (1) build inorganic assets at high cap rates (2) optimize/relook capital allocation, and (3) further gain market share through consolidation.

COVID-19–a great leveler–hits global REITs hard: The pandemic has cratered the global retail REITs as lockdown has hit consumption and rentals for malls resulting in 20-60% corrections in REITs values, making NDCF yield more attractive than reference bonds. For Indian real estate stocks, either pure-plays (like Phoenix) or proxies (other players with mall exposures) stories are not too different, with stock prices correcting 35-40%. This provides attractive entry for investors on sidelines. We believe consumption will pick up over the next 12-15 months with normalized monthly run-rate by next Diwali 2021 or Nov 2021. The recovery is just a vaccine away.

India malls story mirrors global picture, reinvents, and builds on: We have done detailed 10-yr study of growth matrices of over 50+ large mall brands/stores listed in various Indian malls. India has seen sharp changes in consumption patterns with aspirational class moving towards luxury goods and newer experiential services like multiplexes, F&B, luxury watches, departmental stores, beauty & salon, etc. We have bucketed these in categories and arrive at 26% FY16-19 revenue CAGR and robust profitable growth on the back of urban consumption. Rent as cost is sizeable but most of the categories have seen profitable growth and rent is not the only determining factor for mall presence.

Global capital chasing scarce high quality mall assets: In the near term, the pandemic shock is a passing phase and consumption will revert to mean once the pandemic wanes. Global brands continue to expand in malls, and global funds are investing capital for this consumption play, viz., Blackstone, Xander, GIC, and CPPIB. We see more partnering/strategic opportunities emerging for organized mall developers like Phoenix Mills Ltd (PML).

Large organized mall portfolio rated-A, Capex could be deferred to tackle balance sheet woes: We have carried out a detailed financial assessment of large unlisted and listed malls. Studying their credit rating reports, we find that, overall, 36% of the organized malls have A-rating. Credit rating agencies have put the A-rated malls on negative watch due to the pandemic, despite which, the rating width is positive. We believe new supply would be curtailed and completion timelines of under-construction malls could be pushed by 1-2 years.

Initiate coverage on Phoenix Mills (PML) with SOTP of Rs 828/sh: We believe, with strong balance sheet and marquee assets position, PML is well-poised to ride the cyclical recovery (at present, restrictions on mall's operations and COVID-led fears have curtailed the underlying demand). PML is a derivate on richly valued underlying consumption real estate play with a vast scope for expansion. In the long run, it holds the potential for significant cash flow distribution and growth. Near-term headwinds remain, but current prices provide 'quality at reasonable price.

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs /sh)
Phoenix Mills	100	649	BUY	828
DLF	398	161	BUY	219
Oberoi	137	377	BUY	500
Prestige Est	102	256	BUY	280
Brigade Ent	34	162	BUY	213
Sobha Ltd	25	265	BUY	348
Kolte Patil	13	177	BUY	240

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Contents

Globally REITs have been cratered

REITs have corrected sharply, particularly retail REITs, due to COVID led uncertainties

Hit by pandemic-led lockdown and concerns of bankruptcies

COVID-led disruptions and lockdown have severely impacted the retail malls segment globally. In the exhibit below, we highlight price performance of global listed REITs in the US, Japan, Singapore, Australia, and Hong Kong. In India, we do not have a listed pure-play REIT and, hence, we have taken Phoenix Mills as a proxy. The extent of price damage is more vigorous for REITs with high leverage as bankruptcies loom, and reversals of consumption to pre-COVID levels are at least a year away. Most of the listed REITs have corrected 20-50%.

Across US & APAC, REITs have fallen by 20-50%

With consumption recovery still a far-cry, the extent of correction is more substantial for highly levered retail developers

Phoenix Mills (PML), only listed pure-play retail developers, is down 30% from the high Feb'20

Retail REITs performance

REIT name	CMP	Absolute performance (%)					Relative performance (%)#				
		1m	3m	6m	12m	YTD	1m	3m	6m	12m	YTD
US (USD)											
Simon Property	64.0	2.3	18.9	(53.9)	(57.7)	(54.9)	(2.2)	3.5	(14.5)	(17.7)	(16.9)
Spirit Realty Corp	35.1	11.0	23.1	(32.9)	(22.1)	(24.7)	6.5	7.7	6.6	17.9	13.3
The Macerich Co.	7.4	(2.7)	25.8	(66.0)	(73.0)	(68.3)	(7.3)	10.5	(26.6)	(33.0)	(30.3)
Taubman Centre	37.6	2.1	(10.9)	(28.1)	(8.4)	28.0	(2.5)	(26.3)	11.3	31.7	65.9
Realty Income Corp	61.0	9.6	15.6	(20.6)	(14.1)	(13.8)	5.0	0.3	18.8	26.0	24.1
National Retail	35.1	9.8	17.8	(34.9)	(33.2)	(29.9)	5.3	2.5	4.5	6.8	8.1
Agree Realty Corp	66.6	6.0	5.8	(11.4)	(4.2)	0.0	1.4	(9.6)	28.0	35.9	38.0
Saul Centres	27.8	5.2	10.3	(31.9)	(40.4)	(37.2)	0.6	(5.0)	7.5	(0.4)	0.7
Tanger Factory Outlet	5.9	(2.9)	5.2	(52.0)	(59.1)	(54.7)	(7.4)	(10.1)	(12.6)	(19.0)	(16.7)
Pennsylvania REIT	1.1	(1.6)	17.8	(66.9)	(76.8)	(75.4)	(6.1)	2.4	(27.5)	(36.7)	(37.5)
Japan (JPY)											
Japan Retail	1,47,100	10.2	(5.6)	(40.8)	(36.1)	(40.4)	9.1	(7.2)	(16.9)	(19.1)	(18.6)
Frontier REIT	3,37,000	(3.4)	(10.1)	(30.8)	(30.8)	(32.3)	(4.5)	(11.7)	(7.0)	(13.7)	(10.5)
AEON	1,12,000	(0.7)	(7.2)	(23.4)	(20.0)	(25.7)	(1.8)	(8.8)	0.5	(2.9)	(3.9)
Singapore (SGD)											
Capitaland Mall	1.86	(7.4)	1.1	(24.3)	(28.4)	(24.0)	(5.9)	(7.0)	(12.3)	(21.6)	(13.6)
Fraser Centre Point	2.37	(3.8)	10.7	(21.4)	(12.0)	(18.3)	(2.3)	2.6	(9.4)	(5.2)	(7.9)
SPH REIT	0.85	(3.4)	6.9	(20.6)	(20.6)	(21.3)	(1.9)	(1.2)	(8.6)	(13.8)	(11.0)
Starhill Global	0.45	(16.0)	(8.2)	(36.4)	(40.7)	(38.6)	(14.5)	(16.4)	(24.4)	(33.9)	(28.3)
Australia (AUD)											
Scentre Group	1.99	(2.4)	(9.2)	(46.6)	(48.3)	(46.2)	(7.8)	(16.6)	(21.6)	(24.6)	(26.6)
Vicinity Centres	1.26	3.6	(8.5)	(46.4)	(45.7)	(45.1)	(1.8)	(15.9)	(21.3)	(22.1)	(25.4)
Shopping Centres	2.13	4.6	4.6	(25.6)	(10.2)	(14.9)	(0.9)	(2.8)	(0.6)	13.5	4.8
Charter Hall	3.24	0.8	2.4	(33.1)	(30.8)	(24.4)	(4.6)	(5.0)	(8.0)	(7.1)	(4.7)
Waypoint	2.67	(2.5)	4.0	(10.6)	(5.5)	(7.3)	(8.0)	(3.4)	14.4	18.2	12.4
Hong Kong (HKD)											
Link	60.3	(2.7)	(10.7)	(21.9)	(32.4)	(25.2)	0.7	(1.7)	0.9	(2.4)	0.8
Fortune	6.59	(3.9)	(9.5)	(25.6)	(33.3)	(27.0)	(0.5)	(0.6)	(2.8)	(3.3)	(1.0)
India (INR)											
Phoenix Mills*	649	1.2	16.1	(31.3)	(5.3)	(27.6)	(3.8)	(6.4)	(24.8)	(7.2)	(19.7)

Source: Bloomberg, HSIE Research *In the absence of a Retail REIT in India, we have considered Phoenix Mills, pure-play mall operators for comparison # Relevant benchmark indices

REITs are yet to recover

Optimism around V-shaped economic recovery has induced a sharp rally and now most of the global indices are close to their 52-week high

However, REIT indices have been exceptions

While Dow Jones Composite All REIT (All US REITs) has recovered and is down 18%, Dow Jones Retail REIT is still 43% below its 52-week high

Most of the global equity indices are nearing their 52-week high levels as gradually phased unlocking has resulted in demand recovery (pent up or normal) and is catching up to pre-COVID levels. REIT indices have not been able to give this confidence to the markets as (1) many of the malls remain locked, viz., multiplexes and general entertainment with tepid demand in the F&B segment, (2) occupiers have asked for 50-70% discount vs Minimum Guarantee and (3) consumers have been staying away from malls due to safety concerns. This entire development has led to consumption falling to 20-25% of the pre-COVID level. Some of the malls may even need to shut down as revenue shortfall will not be sufficient to cover operating costs, putting pressure on debt servicing. In the Indian context, PML remains resilient with a robust balance sheet and potential fund raise.

Index	Market	CMP	52W high	vs High	52W low	vs Low
Dow Jones	US	27,693	29,569	-6%	18,214	53%
S&P 500	US	3,375	3,394	-1%	2,192	53%
Nifty Index	India	11,312	12,431	-9%	7,511	51%
Sensex index	India	38,220	42,274	-9%	25,639	50%
Hang Seng Index	Hong Kong	24,791	29,175	-14%	21,139	18%
Nikkei	Japan	22,881	24,116	-6%	16,358	39%
Strait Times Index	Singapore	2,528	3,286	-23%	2,208	15%
S&P/ASX 200	Australia	6,120	7,197	-15%	4,403	39%
DJ Global Select REIT Index	Global	1,068	1,401	-21%	1,401	-21%
DJ US Select REIT	US	232	314	-24%	169	42%
DJ Composite All REIT	US	260	318	-18%	176	48%
DJ US Retail REIT	US	61	111	-43%	44	43%
FTSE Nareit Equity	US	198	377	-45%	157	33%
S&P Asia Pacific REIT	Asia	205	257	-21%	139	46%
Hang Seng REIT Index	Hong Kong	5,496	7,914	-31%	5,072	8%
TSE REIT	Japan	1,696	2,262	-26%	1,138	48%
iEdge S-REIT index	Singapore	1,297	1,526	-15%	918	41%
S&P/ASX 200 A-REIT EW	Australia	1,257	1,736	-27%	877	44%

Source: Bloomberg, HSIE Research

Re-rating just a vaccine away

The correction presents an opportunity to own REITs at attractive valuations

In our view, correction presents an opportunity to enter this asset class as long term growth of REITs have been much ahead compared to other global indices

Long-term growth has been much ahead for REIT index vs other developed global indices. REITs are an extended play on consumption and, hence, with consumption reversals, these would stand to benefit. In the exhibit below, we highlight REITs performance vs other asset classes on a 20-year CAGR basis. REITs are placed after Gold globally and behind emerging markets indices. The recent correction presents an excellent opportunity to look at this alternate relatively lower risk asset class vs equities.

Retail REITs are reasonable proxy for consumption play

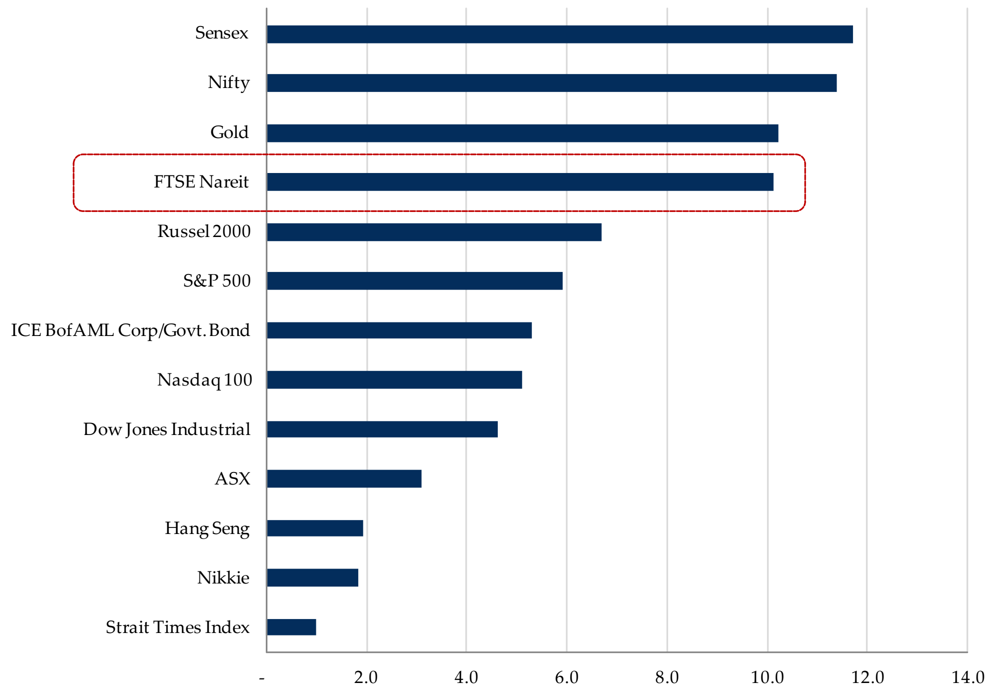
Hence, we believe, REITs would benefit once consumption recovery takes place

REITs have given consistent return over multiple horizons (%)

	5yr	10yr	15 yr	20yr
Strait Times Index	(3.7)	(1.4)	0.8	1.0
Nikkei	2.3	9.5	4.2	1.8
Hang Seng	0.8	1.6	3.2	1.9
ASX	2.6	3.3	2.1	3.1
Nasdaq 100	18.2	19.3	13.6	5.1
ICE BofAML Corp/Govt. Bond	4.8	4.2	4.5	5.3
S&P 500	10.7	14.0	8.8	5.9
Russel 2000	4.3	10.5	7.0	6.7
Dow Jones Industrial	7.9	10.2	6.3	4.6
FTSE Nareit	6.6	10.4	6.9	10.1
Gold	10.8	4.4	10.1	10.2
Nifty	6.2	7.6	11.0	11.4
Sensex	6.8	7.8	11.2	11.7

Source: Bloomberg, NAREIT, HSIE Research

20-year annualised return across asset categories (%)



Source: Bloomberg, NAREIT, HSIE Research

Large REIT players' price underperformance

Globally, G-sec yields have fallen below 1% as central banks injected liquidity to revive economies

On the other hand, sharp correction in Retail REITs has resulted in NDCF yield expansion as concern over their bankruptcies linger

Compared to its global peers, PML is on a strong footing, given its relatively low leverage and room for growth in India

Makes NOI, NDCF yields attractive vs long-term bond yields

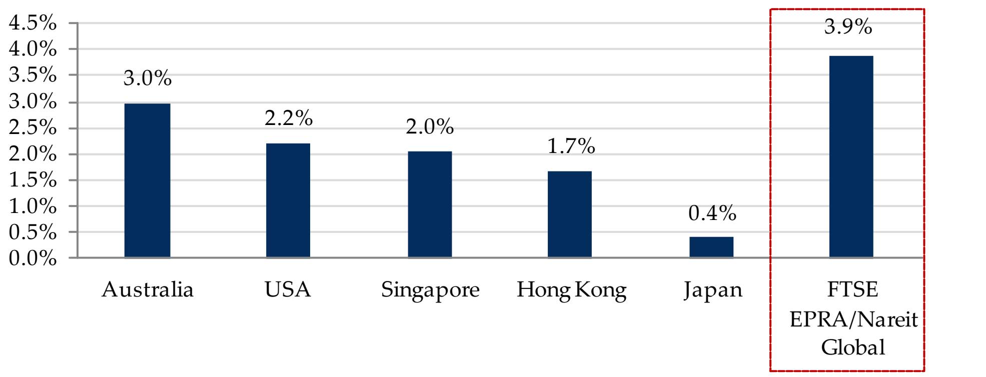
The price correction has made the Net Distributable Cash Flow (NDCF) Yield attractive vs long-term sovereign bonds or other corporate bonds. Whilst globally the interest rates have seen a correction, counter-intuitively, NDCF yields have seen expansion due to risk perception on REITs defaulting and leading to bankruptcies. In the Indian context, we see limited risks for PML as it has low leverage and fund-raise may lead to risk-off and price re-rating. Consumption recovery may take time to pan out, but aggressive expansion in new cities bodes well for growth whilst operational malls may also see post-COVID recovery over the next one year, lending visibility to a stable balance sheet.

Snapshot of retail REITs

REIT Name	Occupancy	MCap (USD bn)	EV (USD bn)	EV/EBITDA (x)	NOI 5yr CAGR	NOI 10yr CAGR	NDCF yield
US							
Simon Property	95%	20.5	45.6	11.7	3%	5%	19%
Realty Income Corp.	99%	21.6	29.7	20.3	10%	16%	5%
National Retail	99%	6.4	9.7	16.7	9%	12%	7%
Spirit Realty Corp	100%	3.7	6.2	13.6	-6%	5%	9%
Agree Realty Corp	100%	3.6	4.4	23.8	27%	18%	4%
Taubman Centre	94%	2.4	6.1	17.9	0%	0%	14%
Saul Centers	95%	0.8	2.1	15.0	2%	3%	13%
Japan							
Japan Retail	100%	3.5	6.5	17.0	0%	3%	8%
AEON	99%	1.9	8.9	9.1	23%	NA	10%
Frontier REIT	100%	1.5	2.4	16.9	2%	5%	9%
Singapore							
Capitaland Mall	99%	5.0	7.6	23.3	4%	4%	6%
Fraser Centre Point	96%	1.9	2.6	23.6	3%	9%	5%
SPH REIT	99%	1.7	2.6	20.6	7%	NA	6%
Starhill Global	97%	0.7	1.5	18.8	0%	4%	8%
Australia							
Scentre Group	99%	7.8	17.8	14.1	7%	NA	12%
Vicinity Centres	100%	4.4	7.1	12.7	13%	42%	11%
Charter Hall		1.4	1.8	13.7	2%	-1%	7%
Hong Kong							
Link	97%	16.5	20.4	20.1	9%	11%	5%
Fortune	97%	1.7	2.8	11.0	5%	11%	8%

Source: Bloomberg, Company, HSIE Research

Average 10 year G-sec yield over past decade



Source: Bloomberg, HSIE Research; FTSE EPRA/Nareit Global dividend yield

Across categories, we have looked at some of the retailers, which occupy a substantial part of the mall space

Relaxation of FDI limit in retail has led to many global brands establishing/expanding their presence

Like their global peers, Indian mall developers too have curated their malls as an experience-led shopping center and proactively changed mix of retailers in line with change in consumption shift

We believe mall operators would reinvent themselves to accommodate changes in consumption habits, brought about by the pandemic

Indian malls replicate the global story

Global brands see malls' presence for premium positioning

We have done a detailed 10-yr mapping of the Indian malls and have bucketed some of the key occupiers into different segments. <u>We have seen a ramp-up of significant multinational presence in malls over the past 8-10 years, replicating the global malls' story.</u> The long-term growth of these categories is highlighted in the exhibit below. We have seen malls re-inventing themselves during this period and using multiple levels to optimize rental CAGR by (1) attracting the luxury brands with high revenue share paying capacity, (2) optimizing shift towards performing brand and cutting down on non-performing ones and (3) expanding or making more space available for a new format like automobiles, experiential F&B, etc.

Categorywise revenue growth

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY16-19 CAGR*
Apparel	64%	74%	30%	29%	59%	13%	11%	0%	20%
Beauty & spa	10%	2%	4%	14%	58%	5%	0%	-7%	-1%
Department store	21%	19%	73%	17%	12%	17%	10%	14%	21%
Entertainment	30%	60%	49%	9%	23%	12%	12%	23%	24%
Food & beverages	43%	32%	23%	16%	14%	9%	18%	-10%	22%
Footwear	19%	-7%	27%	23%	-4%	8%	4%	8%	10%
Grocery	58%	58%	19%	4%	82%	72%	7%	14%	50%
Jewellery & accessories	33%	16%	36%	14%	1%	8%	22%	16%	23%
Total	**34%**	**26%**	**37%**	**16%**	**22%**	**22%**	**13%**	**11%**	**26%**

Source: Ace Equity, HSIE Research *Same-store CAGR

Some of the retailers we have considered

Apparel	Others*	Departmental stores	F&B	Footwear	Beauty & spa	Grocery	Entertainment
ABFRL	Titan	Central	Barbeque-Nation	Bata	Enrich	Big Bazaar	Inox
Arvind	TBZ	Brand Factory	CCD	*Clarks*	Health & Glow	Metro	PVR
Bestseller	Malabar Gold	Lifestyle	*Pizza Hut*	*Adidas*	Kaya	Spencer's	
MAS	Senco Gold	EasyDay	*KFC*	*Nike*			
TCNS	*DA Milano*	Max	*McDonald's*	*Reebok*			
Biba	Baggit	Shoppers Stop	*Dominos*				
Gini & Jony	Hidesign	Trent	*Dunkin Donuts*				
H&M	*Samsonite*	*Marks & Spencer*	*Starbucks*				
Zara	VIP						
Levi's	Wildcraft						
Tommy Hilfiger	Home Town						
	Ethos						
	Fossil						
	Bose						
	Archies						

Source: Ace Equity, HSIE Research *Includes Jewellery, Watches, Electronics & accessories etc.

High rentals as percentage of sales; few categories report losses

Our analysis of rental expense of retailers over the past 10 years suggests rental is not the only determining factor for their mall presence

Rentals are not the only determining factor for the brands' malls presence. In the exhibit, we have highlighted the rental costs as a percentage of sales. As long as consumption is growing, the EBITDA margins are resilient for most categories, as per the historical financials. Many of the categories have healthy EBITDA margins, although, in the near term, the impact of COVID-19 may result in lower profits or losses for a few brands. Looking at the sustainability of the malls over mid to long term, landlords have amicably given rentals discounts with most of the tenants shifting to revenue share model until consumption reverts to normal pre-COVID levels. We believe the brands have a long-term strategy for India, and many of the categories may continue to do business from malls. Some of the vulnerable ones may see a reduced footprint, viz., departmental stores and grocery.

Almost all categories had seen healthy EBITDA margins despite sizeable rentals

Curtailed mall operation would erode the topline of malls and, consequently, impact their margins

Typically, mall operators charge minimum guarantee (MG) rent to retailers and once consumption rises above pre-defined threshold level, they receive part of the revenue (revenue-share)

To provide relief to the retailers, mall operators have given waivers on the fixed rental portion and have switched to revenue share until consumption recovers to the pre-COVID level

Rent as % of sales

	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Apparel	6	9	9	11	11	10	11
Beauty & spa	8	7	12	11	11	11	10
Department store	5	7	7	7	7	7	7
Entertainment	14	16	17	19	19	19	18
Food & beverages	8	11	10	10	11	10	11
Footwear	8	8	9	9	8	8	8
Grocery	3	4	3	6	6	6	6
Jewellery & accessories	2	2	2	2	2	2	2
Total	**4**	**5**	**6**	**7**	**7**	**6**	**6**

EBITDA margin (%)

	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Apparel	11	8	9	8	8	9	9
Beauty & spa	(12)	(6)	2	2	(0)	2	0
Department store	6	7	8	8	8	9	9
Entertainment	14	15	13	16	13	16	19
Food & beverages	11	10	7	7	7	13	14
Footwear	(8)	7	7	5	9	13	16
Grocery	(14)	(10)	(6)	0	3	4	4
Jewellery & accessories	8	7	7	6	7	8	8
Total	**4**	**5**	**6**	**6**	**6**	**8**	**8**

PAT margin (%)

	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Apparel	2	(1)	0	2	3	3	4
Beauty & spa	(18)	(1)	0	(1)	(3)	(2)	3
Department store	2	2	3	2	3	4	4
Entertainment	5	4	2	6	4	7	7
Food & beverages	1	(1)	(4)	(3)	(3)	2	3
Footwear	(24)	7	2	1	3	6	10
Grocery	(18)	(9)	(9)	(2)	1	(0)	3
Jewellery & accessories	5	4	4	3	4	5	5
Total	**(1)**	**1**	**1**	**2**	**2**	**3**	**4**

Source: Ace Equity, HSIE Research

Categorywise vulnerability

Category	Vulnerability	Category	Vulnerability
Apparel	High	Food & beverages	Low
Beauty & spa	Low	Footwear	Medium
Department store	High	Grocery	High
Entertainment	High	Jewellery & accessories	Medium

Source: HSIE Research

We have looked at the revenue growth of some of the brands/categories that are mall occupiers or have large mall presence

Revenue growth of these retailers and consumption growth at PML malls have high correlation across categories

We expect PML to benefit from rise in consumer spend after consumption normalizes

Mall rental growth highly linear to consumption growth

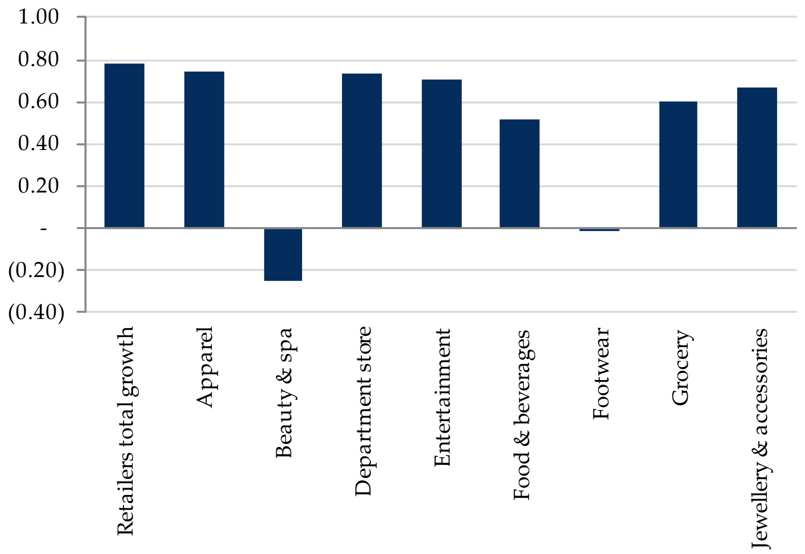
We have tried to map the segment wise consumption growth (for larger mall categories) with PML consumption growth and find high/significant linear relationship for a few categories, viz., apparel, grocery, entertainment, etc. The rising consumption share, along with rising income levels, may lead to a higher revenue share than MG for the categories. PML may witness a higher overall rental CAGR. In terms of rising aspirations, a post-COVID trend seems to be emerging of consumers looking to ramp up spends on personal wellbeing and consumption. This trend bodes well for PML.

Retailers growth and PML growth (%)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Apparel	86	64	74	30	29	59	13	11	0
Beauty & spa	7	10	2	4	14	58	5	0	(7)
Department store	110	21	19	73	17	12	17	10	14
Entertainment	30	30	60	49	9	23	12	12	23
Food & beverages	26	43	32	23	16	14	9	18	(10)
Footwear	15	19	(7)	27	23	(4)	8	4	8
Grocery	167	58	58	19	4	82	72	7	14
Jewellery & accessories	47	33	16	36	14	1	8	22	16
Total	**57**	**34**	**26**	**37**	**16**	**22**	**22**	**13**	**11**
PML consumption growth YoY	**80**	**66**	**97**	**57**	**22**	**10**	**7**	**9**	**9**

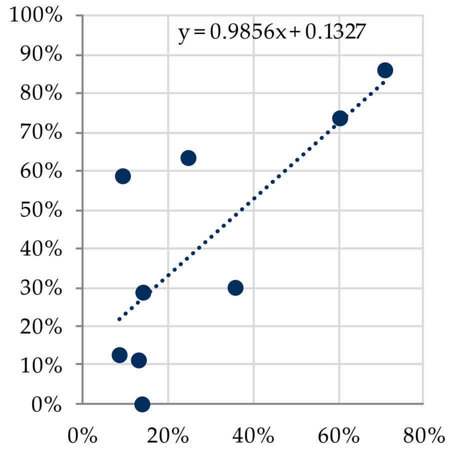
Source: Ace Equity, HSIE Research

Correlation coefficients



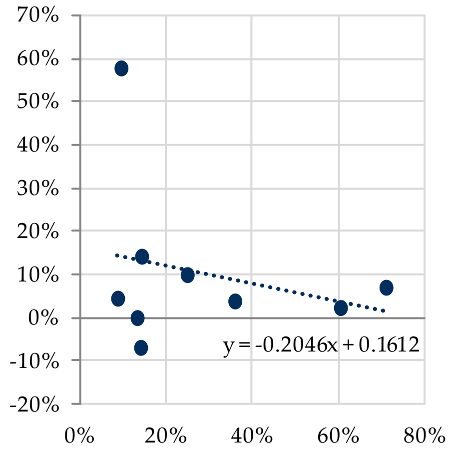
Source: Ace Equity, HSIE Research

Apparel



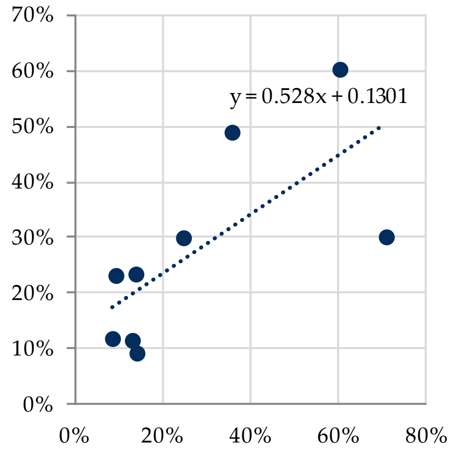
Source: Ace Equity, HSIE Research

Beauty & spa



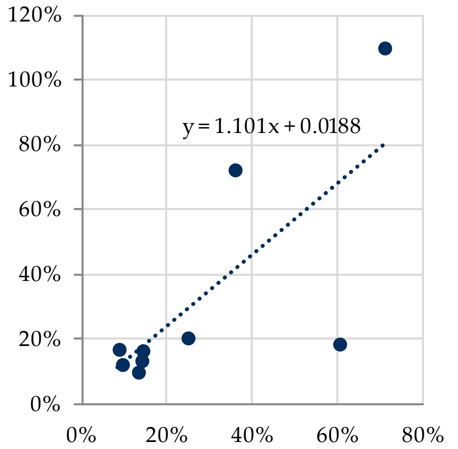
Source: Ace Equity, HSIE Research

Entertainment



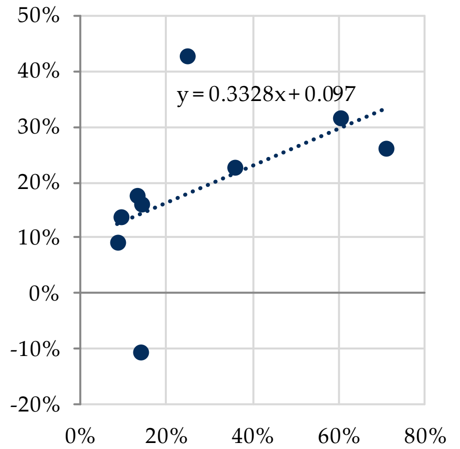
Source: Ace Equity, HSIE Research

Departmental stores



Source: Ace Equity

Food & beverages



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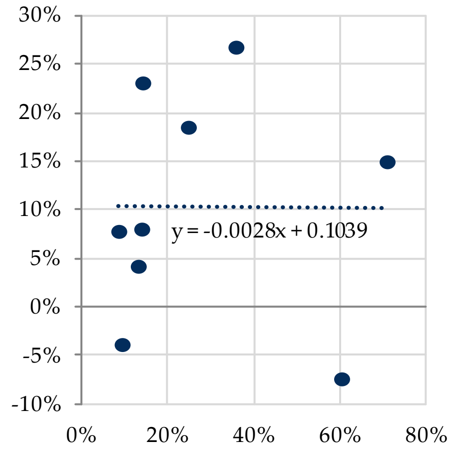
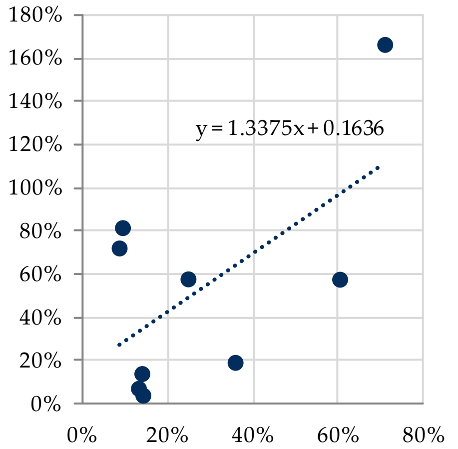
Footwear



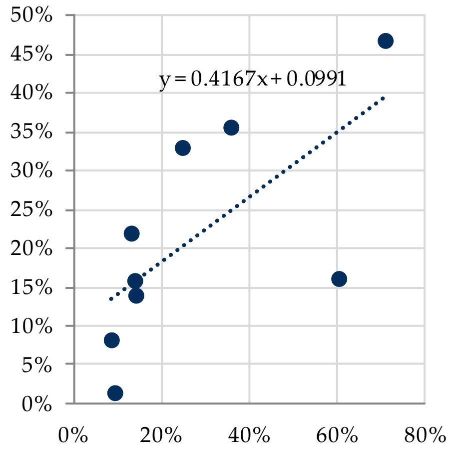
Source: Ace Equity

Grocery



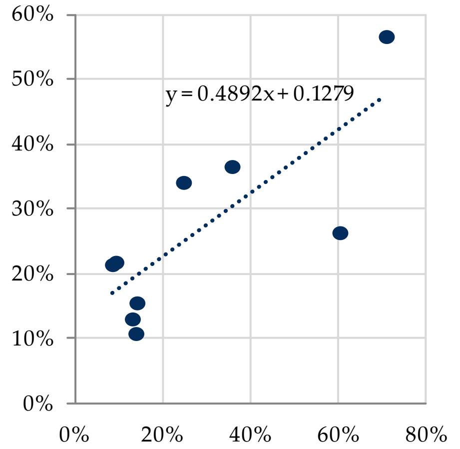
Source: Ace Equity

Jewellery & accessories



HSIE Research

Overall



Source: Ace Equity

Global capital also wants to have a pie in this consumption growth story–either directly or through partners

The Indian consumption story has attracted a sizable capital from global funds

Blackstone–Nexus malls and Xander–Virtuous Retail Malls are early believers/investors in the Indian consumption story and have been ramping up presence in Indian malls, both organic and green field. The strategy is to (1) invest in the consumption play, (2) shift unorganized demand to organized, and (3) bring better experiential flavor to consumer demand. These players are looking at distressed opportunities in the market brought about by the pandemic. We have seen Blackstone monetizing stakes in the listed Office REITs whilst PML is looking at raising funds for any future inorganic acquisition opportunities. Consolidation may bode well for the sector as large players stand to benefit at the current cap rate of 9.5-10%. The future compression in cap rate once consumption recovery pans out shall be positive for the sector.

Nexus Malls, backed by Blackstone, has nine retail assets, spanning 5.3 msf

Virtuous Retail, backed by APG and Xander group, has six assets with gross leasable area of 5.2 msf

CPPIB has entered into partnership with Phoenix Mills to develop three malls across India

GIC has also invested in operational assets

Name	Location	Size (mn sqft)	Latest occupancy	Revenue CAGR FY17-19
Nexus (Blackstone)				
Ahmedabad One	Ahmedabad	0.7	92%	42%
Mall of Amritsar	Amritsar	0.5		
Westend	Pune	0.4	93%	
Seawoods	MMR	1.0	93%	
Elante	Chandigarh	1.2	99%	10%
Treasure Island	Indore	0.4	93%	9%
Next Treasure	Indore	0.2	82%	136%
Esplanade	Bhubaneswar	0.5	99%	
Pavillion	Pune	0.4	98%	20%
Nexus total		**5.3**		
Virtuous Retail (Xander, APG)				
VR Punjab	Chandigarh	1.0	94%	21%
VR Bengaluru	Bengaluru	0.9	90%	73%
VR Surat	Surat	0.6	97%	
VR Chennai	Chennai	1.0	90%	73%
VR Ambarsar	Amritsar	1.0	60%	
VR Nagpur	Nagpur	0.7		
Virtuous Retail total		**5.2**		

Source: CRISIL, ICRA, India Ratings, HSIE Research

Indian large realty players not behind – with marquee investors in tow

Indian developers have also capitalized on India's consumer story

PML, DLF, Prestige Estate, Oberoi Mall and Brigade Enterprises are mall asset plays in the Indian context. In terms of REIT play, only PML seems to be pure retail mall play with likely REIT opportunity potential once new under-construction malls become operational. DLF, PEPL, Oberoi and Brigade have small rental income from the malls. Oberoi and PEPL have plans to expand the current mall portfolio.

Phoenix Mills, the largest mall operator in the country, has nine operational malls in six cities

DLF has nine retail assets in the National Capital Region (NCR)

Other large players are Prestige Estate, K Raheja-backed Inorbit, Brigade Enterprise and Oberoi Realty

Name	Location	Size (mn sqft)	Latest occupancy	Revenue FY17-19 CAGR
Phoenix Mills				
HSP & Palladium	MMR	0.77	95%	8%
PMC	Bengaluru	1.00	97%	10%
PMC	Pune	1.19	96%	10%
PMC	Mumbai	1.14	92%	1%
PMC & Palladium	Chennai	1.22	96%	9%
Phoenix United	Lucknow	0.33	86%	13%
Phoenix United	Bareilly	0.31	91%	9%
Palassio	Lucknow	0.90		
Phoenix Mills total		**6.86**		
DLF				
Mall of India Noida	NCR	1.97	100%	
DLF Avenue (Formerly Saket)	NCR	0.52	99%	-3%
Promenade	NCR	0.46	100%	5%
Cyber Hub	NCR	0.46	99%	
Emporio	NCR	0.31	97%	3%
City Centre	NCR	0.19	74%	
Chanakya	NCR	0.19	93%	
South Square	NCR	0.06	99%	
Capital Point	NCR	0.09	99%	
DLF total		**4.25**		
Prestige Estate				
Forum Sujana	Hyderabad	0.82	100%	
Forum Fiza	Mangalore	0.67		4%
Forum Vijaya	Chennai	0.64		
Forum Shantiniketan	Bengaluru	0.62	94%	
Forum Celebration	Udaipur	0.39		
Forum Mall Bengaluru	Bengaluru	0.35		
Forum City Centre	Mysore	0.31	100%	
The Forum Neighbourhood	Bengaluru	0.29		17%
UB City Retail	Bengaluru	0.10		
Prestige Mysore Central	Bengaluru	0.06		
Prestige Mysore Central	Bengaluru	0.02		
Prestige Estate total		**4.27**		
Brigade Enterprise				
Orion Mall @ Brigade Gateway	Bengaluru	0.83		9%
Orion Avenue Mall	Bengaluru	0.15		
Brigade Vantage	Chennai	0.06		
Brigade Total		**1.04**		
Oberoi Realty				
Oberoi Mall	MMR	0.55	97%	
Oberoi Realty total		**0.55**		

Source: Company, CRISIL, ICRA, India Ratings, HSIE Research

India still underpenetrated–malls remain mostly urban play

Despite the substantial increase in the number of malls in the past decade, India remains an under-penetrated market

Malls in India are positioned as urban-centric consumption plays. High per capita urban income and propensity to consume makes it an attractive marketplace. The upcoming supply and mall stock are highlighted in the exhibit below. As per Anarock, new mall supply of 69/31malls is expected in Tier1/Tier 2 cities over CY20-22E although COVID-led disruptions may put a spanner in the construction works, with timelines extending by 1-2 years.

Per capita availability of mall space is significantly lower than the global average; hence, there is ample opportunity to grow

As per earlier reports by Anarock, 100 new malls, spanning 49 msf were to open during CY20-22, doubling the existing mall stock

City-wise upcoming mall supply (CY20-22E)

City	Supply (msf)	No of Malls	Average Mall Size (msf)
MMR	7.8	18	0.43
NCR	7.5	13	0.58
Hyderabad	5.5	12	0.46
Bengaluru	5.9	10	0.59
Chennai	4.3	9	0.48
Pune	2.6	4	0.65
Kolkata	1.9	3	0.63
Total Tier 1	**35.5**	**69**	**0.51**
Ahmedabad	3.2	6	0.53
Lucknow	2.5	4	0.63
Nagpur	0.9	2	0.45
Surat	0.7	2	0.35
Others	6.2	17	0.36
Total Tier 2 & 3	**13.5**	**31**	**0.44**
Total	**49.0**	**100**	**0.49**

Source: Anarock, HSIE Research

Current mall stock–49.6mn sqft

However, considering the disruption, new supply might get delayed as developers await consumption recovery

The mall stock is expected to double from 49.6mn sqft to almost 100mn sqft over the next 3-4 years.

City	Mall Stock (msf)	Mall space per person (sf)	Vacancy	Avg. Rental (Rs/sf/month)
NCR	14.8	3.2	14%	250-340
MMR	11.8	1.0	7%	200-250
Bengaluru	7.6	0.9	15%	120-225
Chennai	6.0	1.3	15%	70-150
Pune	4.0	1.3	10%	120-170
Hyderabad	2.8	0.4	15%	100-160
Kolkata	2.6	0.6	8%	130-200
Total	49.7			

Source: Anarock, HSIE Research

Significant Capex plans for Tier 1 may slow down, face delays

Prominent players have planned considerable capex for new malls

Despite the pandemic, they are confident of Indian consumption story and continuing with their capex plan

Majority of these new projects have financial closure

However, reassessment of risk by lenders, construction challenges and delayed recovery could push their timelines by 1-2 years

Despite COVID-19 pandemic, the Capex programs of large real estate developers remain as per plan. Whilst most of the upcoming supply has financial closure in place, banks are reassessing/considering (1) risks attached with lower rentals post-pandemic and (2) longer timelines to recovery. Some of the developers are seeing reduced LTVs by banks, and hence developers may need to bring in a higher share of equity into the projects. LRD market is also not conducive as financial institutions find it challenging to value malls at the current rental run rate (20-25% of the pre-COVID level). Hence, determining LTV and resultant debt limits will be an uphill task, based on the new LTVs. Developers may retain their mall Capex plans, but timelines could get pushed by another 1-2 years.

Upcoming large malls

Project Name	City	Leasable Area (msf)	Capex (Rs mn)
Phoenix Mills			
PMC Wakad	Pune	1.1	8,500
PMC Hebbel	Bengaluru	1.2	18,000
PMC	Indore	1.0	7,500
Palladium	Ahmedabad	0.7	8,000
Phoenix Mills total		**4.0**	**42,000**
Prestige Estate			
Falcon City	Bengaluru	1.3	7,620
Forum Thomsun	Kochi	1.1	6,360
Forum Rex Walk	Bengaluru	0.2	1,440
Prestige Estate total		**2.6**	**15,420**
Oberoi Realty			
Skycity	MMR	1.6	8,000
Worli	MMR	1.0	5,080
Oberoi Realty total		**2.6**	**13,080**
Brigade Enterprise			
Orion Uptown	Bengaluru	0.27	1,935
Brigade Enterprise total		**0.27**	**1,935**

Source: Anarock, HSIE Research

FY21/22E to be a tough year for the retail mall sector

Malls across the country have reopened after being shut down in the lockdown period

- Hit by the pandemic, most of the malls were closed for 2-3 month and have now gradually opened. Developers have extended reliefs to the tenants to survive during these times.

- Malls have the running debt as LRDs, whose serviceability is contingent on the rental collections. Whilst large organized retail mall operators with solid financial backing and liquidity may sustain these near-term headwinds, a few cases may face distress.

To support retailers, malls gave rent waivers during the lockdown and have reduced MG until consumption reverts to pre-COVID level

- The RBI's recent policy allows one-time corporate restructuring for segments hit by COVID-19, which may provide some relief to the retail sector as well. We await the detailed RBI policy but believe that COVID-19 is the key factor for mall closure and, hence, the sector may be a beneficiary of OTR. Now it depends on banks whether they will extend the same to stronger operators as they may have to take a 15% initial hit on loan value.

- In the exhibit below, we highlight rental relief offered to tenants by the landlords. We expect FY21E rent collections to be in the range of 25-55% across mall operators.

This would impact ability of mall operators to service their LRD loans (backed by rentals)

Large developers, with strong balance sheets, could sustain the decline in rental collection but developers with weak financials may feel the stress

Rent concessions given to retailers could hurt mall operators in the short term

Company	GLA (msf)	During the lockdown	After the lockdown
Phoenix	6.86	45-55% of MG waived off; discussion with multiplexes & F&B operators are still on; rent to be recovered in a staggered manner over July to September	Concessional MG on case to case basis and higher rev share for 1-2 quarter; will return to original rental terms once retailers reach 75-80% of last year consumption
Prestige	4.27	A complete waiver on rent; CAM charges covered as actual	Discussion with retailers are still on, clarity by mid-August
DLF	4.25	MG waived off for the period with certain conditions	MG at a concessional rate with a higher revenue share from retailers
Brigade	1.04	50% waiver on rent; CAM charges recovered at a cost	Reduced MG rent and higher revenue share till September
Oberoi	0.55	Retailers did not pay anything during 1QFY21	Still in wait and watch mode
Nexus	5.30	Have given a concession to retailers on case to case basis	Further relaxation to depend on consumption recovery
Xander	5.20	Selective concessions given on case to case to case basis	Ongoing discussions with retailers
Total	**27.47**		

Source: Company, Industry sources, HSIE Research

Pre-COVID revenue share

Category	Revenue share
Fashion	12-15%
Supermarket	3-5%
Electronics	2-4%
Department stores	8-10%
International department stores	7-8%
F&B (smaller counter)	>15%
F&B (speciality restaurant)	10-15%
Multiplexes	6-7%
Jewellery	2-3%
Watches	5%
Services & spa	10-15%

Source: Industry sources, HSIE Research

Tough times may not last; credit agencies remain investment grade on malls

For large malls, we have highlighted rating rationale as per the reports available from the credit rating agencies. We have collected data for 24 rated malls, of which about 17 have A rating (71% of the universe). Of the total 47 malls data that we have, the A-rated universe is 36%. The detailed key rationale for each of the malls is highlighted in the exhibit below and covers both unlisted and listed players, viz., Blackstone, Xander, DLF, Prestige, and Phoenix.

The credit rating of malls

SN.	Mall name/ Promoter/City	Credit Rating/ (FY19 Rental)	Rating Rationale Highlights
1	Ahmedabad One (0.72msf) Blackstone Ahmedabad	CRISIL A+/Negative	• 'Negative' outlook reflects possible impacts of the Covid-19 pandemic • Developing phase-2 (2lsft); currently developing the 1st floor of 3 floors. Construction is expected to be completed by Aug-20 at a for Rs 96 crore. • Vacancy is 8.2% as of Aug-19; temporary phenomenon as vacant space is under fit-out; maintained ~100% occupancy for the 5 years through FY18 • Top 10 tenants occupy close to 52% • Prime area but competition from established main streets in the city • ~50% of the agreements would be up for renewal over the next 3 fiscals • D/E = 1.44 & Interest coverage = 4.74 (FY19) • DSCR of 1.6; DSRA of 1 month of interest & 1 quarter of principal
2	Westend (0.42msf) Blackstone Pune	ICRA A-/ Negative Watch	• 'Negative Watch' reflects possible impacts of the Covid-19 pandemic • Favourable location - Aundh is an affluent suburb in Pune; nil competition due to absence of nearby malls. Proximity to the M-P expressway and CBD • Low renewal risk as no leases coming up over the next three years • Developing an IT park above the mall with a total leasable area of ~2.5 lsf; ~18% of the project cost left to be incurred; commitments at ~45% • Repayment towards promoter NCDs and redemption of preference shares would require Rs. 160 crores by December 2021 and the same is expected to be funded by future LRD against the rentals of the IT park. • Top five tenants contribute ~31% of rental revenue • Debt/EBITDA = 9 & Interest coverage = 1.3 (FY19) • DSCR of 1.5; DSRA covering two months of debt
3	Seawoods Grand Central (0.98msf) Blackstone Navi Mumbai	BWR BBB- /Stable	• Nascent stage of the mall operations, weak coverage ratios, high leverage • SGC is India's largest Transit Oriented Development (TOD) • Average monthly footfall for the period FY19 was around 7.01 lakhs, and for the period Apr-19 to Jan-20 was around 8.47 lakhs. • 330 stores, 1800 parking spaces and 2100 food court seating • D/E increased to 6.76 times as of Dec-2019 on account of the additional debt availed for Phase II payments • The proceeds of the NCDs have been used for the purchase of the Seawoods Grand Central mall from L&T
4	Elante (1.15msf) Blackstone Chandigarh	CRISIL A+/Negative	• 'Negative' outlook reflects possible impacts of the Covid-19 pandemic • It owns and operates the Elante Mall, the Elante office complex, and the Hyatt Regency hotel in Chandigarh • 53% of the mall leases to come up for renewal over the next 3 years • Top 10 tenants occupying around 40% area and contributing to 27% of MG • New agreements with tenants for around 12% of the total leasable area over the 20 months through January 2020 were entered with 30% MTM • Office complex (4.24 lsf) - 2.99lsf has been sold, while about 55% of the remaining space was leased as of Jan-20 • Comfortable LTV of around 40% • DSRA covering three months of debt servicing obligations. • D/EBITDA = 1.57 & Interest coverage = 1.52 (FY19)
5	Treasure Island (0.4msf) Blackstone Indore	BWR A- (SO)/Stable (Withdrawn May-19)	• Joint Venture between Blackstone Group & Chhabra Group • It was under significant refurbishment during FY15 and FY16 and reopened to the public in Q4 FY16 • 105 stores, one multiplex, 500 parking spaces and 225 food court seating

SN.	Mall name/ Promoter/City	Credit Rating/ (FY19 Rental)	Rating Rationale Highlights
6	Next Treasure (0.2msf) Blackstone Indore	ICRA BBB+/ Negative Watch	• Negative Watch' reflects the possible impact of the COVID-19 pandemic. • The favourable location of the mall • The occupancy levels of the mall remain ~82% as on Mar-20. • The company could not tie up any incremental leases between Oct-18 and Aug-19 on account of a freeze on new leasing due to a pending litigation • Started new leasing tie-ups for the balance area, which is expected to improve the rental revenue. Leasing is expected to be ~95% by end-FY21. • No major renewals are falling due over the next three years. • Faces competition from similar retail assets & established main streets. • Top five tenants contribute ~73% of rental revenue. • Weak profitability and consequently debt coverage indicators in past • D/EBITDA = 11 and Interest coverage = 0.8 (FY19) • DSCR of 0.7; DSRA covering two months of debt
7	Esplanade (0.5msf) Blackstone Bhubaneshwar	ICRA A- /Negative Watch	• Negative Watch' reflects the possible impact of the COVID-19 pandemic. • The favourable location of the mall and resultant healthy footfalls • No major renewals due in the next one and a half years, • The company holds office and hotel space inventory located on the same premises and the erstwhile promoters currently manage it. • Top five tenants occupying close to 56% • Competition from other 1 existing and upcoming malls in Bhubaneswar • Cumulative cash flow coverage indicator remains adequate • D/EBIDTA = 10.9 & Interest coverage = 1.3 (FY19) • DSCR of 1,3; DSRA covering 2 months of debt
8	Pavillion(0.4msf) Blackstone Pune	IND AA-/Stable	• Mixed-used development project - office space (0.87msf), a mall (0.43msf), a 415-key hotel & windmills; contributing 51%, 31%, 17% and 1% to revenue, and 29%*, 52%, 17% and 1% to the EBITDA • FY20 Occupancy rate for office space – 100%, mall - 97-98% & hotel – 67% • Not availed any moratorium; LTV was below 35% at FY20 • Gross and Net leverage is likely to remain acceptable around 3.5x and 2.5x, respectively, in FY21 (FY20: 2.4x, 1.9x) • DSRA covering three months of interest servicing for the bonds • DSCR to remain above 1.40x over FY21-FY25 • Top four lessees account about 52% of the combined leased area
9	VR Punjab (1msf) Xander & APG Chandigarh	IND BBB-(SO)/Stable	• An exclusive charge secures LRD facility over the mall • The additional available leasable area of 0.64 million sf) is located in Mohali • As on May-19, 84.9% of the area (including under fit-outs) was occupied • 5-6% of the leased area is coming up for renewal till FY22. • Mall houses over 150 reputed retailers and has nine PVR screens • LTV at ~40%; DSRA covering around four months of payment obligations • Both DSCR and LTV ratios are in line with the benchmark levels expected
10	VR Bengaluru (0.47 msf) Xander & APG Bengaluru VR Chennai (0.95 msf) Xander & APG Chennai	CRISIL BBB+/Negative Watch	• Healthy revenue is generated by the Bengaluru and Chennai malls backed by healthy occupancy and reputed clientele, and moderate debt protection metrics • Bengaluru Mall is located in the Dyvasandra Industrial Area and has 0.47msf retail space, 0.05msf office space, & a 54-room hotel. The Chennai mall is in Anna Nagar and has 0.95msf retail space, 0.02msf in office space, and a 20-room hotel. • The Bengaluru assets have been operational since October 2015 and have healthy occupancy of 90% in the retail space, 93% in office space, and 65% in hotel space. • In Chennai, the retail mall and office space became operational in Jun-18 and have an occupancy of 90% and 82%; hotel to commence operations shortly. • Less than 5% of the leased area is coming up for renewal over the next 3 years. • DSCR is expected to be above 1.0 time over the medium term: ICR 0.52 (FY19) • Sugam has availed moratorium from its lenders for part of its bank debt
11	VR Ambarsar Xander Amritsar	ICRA A(SO)/ Negative Watch	• Healthy cash cover (net rental/interest) for the senior NCD • ISRA equivalent to one quarter of interest payment. • The moderate occupancy level of 60% as on Jun-19 • Around 35% of the leases are falling due for rental escalation within the next 22 years • Low occupancy has led to under-recovery of CAM affecting the operating profits. • Located within the new city centre of Amritsar, adjoining the high-end residential areas; spread over 8 floors of the shopping complex • Refinancing options available for rental assets in the form of LRD loans. • The mall has a food court (seating capacity of 800), multiplex (6 screen facility operated by Satyam- INOX currently), departmental stores (Lifestyle, Pantaloon, etc.), retails stores (over 120 outlets), hypermarket (Big Bazaar), and entertainment zones. • D/E = 12.7 and Interest coverage = 0.2 (FY19); D/EBITDA = 44

SN.	Mall name/ Promoter/City	Credit Rating/ (FY19 Rental)	Rating Rationale Highlights
12	VR Surat Xander Surat	CARE A- Negative Watch	• The rating derives strength from adequate liquidity available with the company, healthy occupancy level, aided by favourable location and company being part of VR group • The rating continues to derive strength from ring fencing of lease rentals of VR Surat Mall through an escrow mechanism supported by presence of DSRA and diversified client base • Negative implications' on account of shut down of the mall since mid of March 2020 • Cash flows are expected to weaken in Q1FY21 as tenants are likely to seek waiver or deferment of rent till normalization of activity
13	DLF Avenue, DLF Promenade & DLF Emporio DLF NCR	ICRA AA- /Stable	• ICRA has taken a consolidated view of DCCDL and all its assets • Comfort from 2 strong promoters – DLF & GIC • The operational leasable area of the group increasing to 30.3 mn. sq. ft. in FY20 • DCCDL's office portfolio has remained mostly unaffected by COVID. • Group's retail portfolio 3.9msf has been significantly impacted. • Current organic development potential of DCCDL stands at ~29.5 mn. sq.ft, over and above the on-going development of ~ 7.1 mn sq.ft. • Sufficient liquidity coupled with management's stated intent to maintain overall debt at the current level resulting in a moderation of NOI/debt to 4x.
14	Forum Sujana (0.82msf) Prestige Hyderabad Forum Shantiniketan (0.62msf) Prestige Bengaluru Forum City Centre (0.31msf) Prestige Mysore	ICRA A+(CE)/ Stable	• Corporate guarantees provided by Prestige Estate Projects Limited to each • Prestige Group currently operates 10 malls (4.3msf); strong track record • The company has significant repayments over the next 2.5 years, at close to Rs. 2,000 crore per annum, at the Group level. The company will be reliant on refinancing to the extent of corporate debt and construction loans. • Nevertheless, the annuity income portfolio provides financial flexibility to PEPL because, at the Group level, the leverage is moderate with debt-to-annualised rental income of 4.4 times, which mitigates the refinancing risk to an extent. • Company has access to undrawn LRD loan of over Rs 400 cr with other sanctioned construction finance and Capex loans which are available for drawdown for the identified projects. • **Sujana:** moderately high leverage for Rs 5.5bn LRD of 6.3 times of annual gross rental income. Debt coverage metrics to remain comfortable. It is located in Kukatpally. It enjoys steady demand from a large catchment of the residential area surrounding the mall. Healthy occupancy of ~100% over the past three years. Interest coverage = 2.8; D/EBITDA = 3.2; DSCR = 1.1. • **Shantiniketan:** With many IT/ITES offices situated nearby, and dependent residential developments, Whitefield has become a significant micro-market within the Bangalore RE market. The demand is expected to be localised and dependent on residents and people working in Whitefield/ITPL/Mahadevpura. Interest coverage = 0.82; D/EBITDA = 45.48; DSCR = 0.82. • **Forum City Centre:** The company has also entered into a lease agreement with PVR, with the rent commencement expected during FY21. DSRA covering three months of debt obligations. ~100% occupancy over the past 2 years. Interest coverage = 1.1; D/EBIDTA = 9.3; DSCR = 0.3.
15	PMC Bengaluru (1msf) Phoenix Mills Bengaluru	CRISIL A/ Negative Watch	• Negative Watch' reflects the possible impact of the COVID-19 pandemic. • 51:49 subsidiary of TPML and CPPIB • Group has availed moratorium from its lenders for 6 m • Stable cash flow supported by healthy mall occupancy (90% over 4 years) and a diverse and reputed clientele, and strong debt protection metrics • Successfully renewed/entered into new agreements with tenants for 19% of the total leasable area during FY19, at significant MTM gains. • Large scale and attractive catchment area • 70% of the agreements will be coming up for renewal over the next 3 fiscals. • Top ten tenants occupy 39% of the area • DSCR of well over 1.3 times over the tenure of the debt. DSRA of Rs 15 crore, to be maintained throughout the loan tenure. • DSCR: 1.68, D.E = 0.97, Interest Coverage = 3.16 (FY19)
16	PMC Pune(1.2msf) Phoenix Mills Pune	CRISIL A/ Negative Watch	• Negative Watch' reflects the possible impact of the COVID-19 pandemic. • Maintained occupancy of over 90% for the past three fiscals • Successfully renewed/entered into new agreements with tenants for 11% of the total leasable area during fiscal 2019, with MTM gains • Top ten tenants occupy only around 32% area, ensuring low concentration • DSRA of Rs 29.5 crore which is equivalent to 3 months of debt servicing • Well-diversified clientele and had healthy occupancy of 96% as of March 2019. • Substantial 53% of agreements will be up for renewal in the three fiscals • DSCR = 1.22; D:E = 2.91, Interest Coverage = 2.38 (FY19)

SN.	Mall name/ Promoter/City	Credit Rating/ (FY19 Rental)	Rating Rationale Highlights
17	PMC Mumbai (1.14msf) Phoenix Mills MMR	IND A-/ Negative Watch	• Negative Watch' reflects the possible impact of the COVID-19 pandemic. • Phoenix Market City (1.14msf), Mumbai, and office space, Art Guild House (AGH – 0.4msf, 90% occupancy). • DSRA of INR200 million to cover three months of interest and principal • As on 31 December 2019, about 94% of the PMC leasable area occupied. • Ind-Ra has assumed that AGH would achieve occupancy of 95% by FY21-22 • LTV at 35-40% at end-FY20 • Company has availed RBI moratorium.
18	PMC & Palladium (1.22msf) Phoenix Mills Chennai	IND BBB+/ Negative Watch	• Negative Watch' reflects the possible impact of the COVID-19 pandemic. In Ind-Ra's stabilised scenario, the net cash flow has an adequate DSCR of 1.15x-1.20x. LTV of 43.56%. 6-month moratorium availed • DSRA of 3 months of interest and principal obligation (about INR303mn) • PMC is one of the largest malls in Chennai with occupancy of 98.5%. • Rental rates are higher than the average rates in the micro-market In FY19 • Rental income, consumption and trading density of the mall stood at INR1.53 billion, INR11.07 billion and INR1,394/sf/month, respectively. Moreover, rental income, consumption and trading density increased at a CAGR of 12.1%, 9.8% and 4.4%, respectively, over FY14-FY19. • 10 marquee anchor tenants (including multiplex), nine mini-anchor tenants and 202 inline tenants (including hypermarket, entertainment centre and food court) that contribute 17.3%, 6.4% and 76.3% to Ind-Ra's base case rental • The top 20 tenants contribute 36.9% • Total rental income accounting for only 13.7% of the total trading consumption of the mall, Classic Mall is one of the most profitable malls for the tenants. • The mall is well connected with the city's CBD (5km)
19	Phoenix United (0.35msf) Phoenix Mills Lucknow	CRISIL A-/ Negative Watch	• Negative Watch' reflects the possible impact of the COVID-19 pandemic. • 86% occupied as of March 2019. Top ten tenants occupy close to 50% area. • Successfully renewed/entered into new agreements with tenants for 28% of the total leasable area during FY19, with MTM gains. Availed 6m morat. • A significant proportion of total rentals is generated through RS income • There are few large format malls currently being developed in Lucknow, which may affect footfalls that PUM enjoys and impact retailers' income. • 45% of the agreements coming up for renewal over the 3 fiscals through 2022. • DSRA covering one-quarter of debt servicing obligation. (Rs 3.5 cr) • Upcoming annual debt obligation of Rs 7-8 crore in the three fiscals • DSCR = 1.51; D:E = 0.97, Interest Coverage = 3.16 (FY19)
20	Phoenix United (0.31msf) Phoenix Mills Bareilly	CRISIL BBB/ Negative Watch	• Negative Watch' reflects the possible impact of the COVID-19 pandemic. Availed 6m morat. • About 91% of the leasable area had been leased out as of March 2019 • About 18% of the area was up for renewal in fiscal 2019 • DSRA covering one-quarter of debt-servicing obligation – Rs 4.13cr • Significant proportion rentals are generated through RS income which is not as stable as guaranteed rentals. • 56% of the agreements will be coming up for renewal over the next three fiscals • DSCR was 1.04 times in FY19 and is expected to remain above 1.0 time • Repayment obligation of Rs 7-9 crore per fiscal in the three fiscals through 2022 • D:E = 2.36, Interest Coverage = 1.51 (FY19)

Source: CRISIL, ICRA, India Ratings, Company, HSIE Research

Rating distribution among malls

Rating	No of Rating
AA-	4
A+	4
A	3
A-	6
BBB+	4
BBB	1
BBB-	2
Not rated	23
Total	47

Source: CRISIL, ICRA, India Ratings, Company, HSIE Research

Key risks

Pandemic has upended the real estate market, particularly retail and commercial

We are likely to see some structural changes and existing trends are likely to intensify

Commercial office segment is facing headwinds as work from home is getting institutionalized

Consumption recovery at malls could be slower as increasing number of people sign up on online platforms

- **Work from home** –our interactions with large occupiers suggest there could be a structural shift to work from home. This shift has a further implication; the millennials and medium to bulge bracket employees could move to Tier 2 cities or go back to their hometowns. Their move may have a catastrophic impact on the urban population and consumption. The second-order impact may result in lower rents and rental cap rate expansion due to the risk associated with high Capex asset class.
- **Sustained delay in footfall recovery -** Hit by the pandemic, consumers have got used to or developed the habit of shopping online. Some of the hardcore mall crowd has also shifted to online shopping. Whilst we believe that few categories remain vulnerable and may improve profitability by moving a higher share online, others like luxury categories (jewelry and watches) may not. Multiplexes may gradually open, and consumers would once again prefer visiting them for the experience they provide. OTT may not replace movie binging. Footfall trends are still emerging, and any structural change in the shift from brick and mortar retail to online may have a disruptive impact on the mall NOI growth.
- **Lenders remain wary of lending to retail malls -** We have seen instances of projects where financial closures have happened, and banks have pulled back disbursals as they expect most of the malls' incomes to halve in FY21E. This may result in lower debt security cover and higher implied LTV ratio. Some of the banks' credit risk departments have laid down stringent conditions on lending to retail malls, which could lead to drying up of bank funds for malls. And also lead to lower LTV ratios and higher equity funding of the projects.
- **COVID-19 has pushed the Retails REITs plan by at least two years** - We expect malls to achieve FY20 monthly revenue run-rate from 3QFY22. This COVID-induced setback is sentimentally negative for the sector as the absence of liquidity, both on the debt and equity sides, may result in WACC and Cap rates expansion for the sector. The stronger promoters may still be able to get equity funding as long-term growth drivers on consumption remain intact.

The category-wise breakup of mall area

Category	Area (% of GLA)	Potential threat from an online shift
Department store	20-25%	High
Food & beverages	15-20%	Low
Multiplexes	8-10%	High
Supermarket	5%	High
Family entertainment centres	2-3%	Low
Electronics	2%	Medium
Others	35-45%	Medium

Source: Industry sources, HSIE Research *Others include watches, jewellery, beauty & spa, home décor, boutique shops, standalone apparel shops, accessories etc.

INSTITUTIONAL RESEARCH

Phoenix Mills

Foot 'falls' – provides attractive entry

In the past three months, Phoenix Mills Ltd (PML) has corrected 30% on the back of (1) COVID-led mall closures, (2) concerns over work from home, (3) likely correction in retail rents, and (4) concerns over the long road ahead to normalcy. Financial concerns on likely equity dilution to meet FY21-22E cash deficit of Rs 6.2bn and the higher share of equity requirement for Capex assets have led to further de-rating. However, we believe that consumption will mean revert once the vaccine is in place. Strong market positioning, marquee assets, and robust financial track record place PML in a position to tide over the current headwinds. We believe the company is 'ripe for consumption' and initiate coverage with a SOTP of Rs 828/sh.

- **Mall rental highly linear to consumption growth:** We have tried to map the larger mall categories universe growth with PML consumption growth and find high/significant linear relationship for the categories of apparels, grocery, entertainment, etc. Based on the aggregate categories' growth data, we arrive at a regression coefficient of ~0.5x. This implies that, for categories universe growth of 1%, PML consumption will see a 0.5% growth. With rising income levels, the consumption share increase may lead to PML's revenue share being higher than the minimum guaranteed (MG) for the categories, which may result in the company realizing higher overall rental CAGR. Though in the near term, consumption may remain muted.
- **FY20-25E rental CAGR of 13% to be driven by new asset additions:** PML has a development pipeline of five new malls for the next five years with a varying timeline of completions. The Lucknow mall is already operational while, Ahmedabad, Indore, Bengaluru, and Pune ones will be operational by FY20-25E. We have built in 12-18 months of delay to factor in COVID-19 impact. The company's gross rental income is expected to increase from Rs 10bn during FY20 to Rs 19bn at 13% CAGR whilst the economic share of rentals is expected to grow from Rs 8.6bn to Rs 14.4bn at 11% CAGR over FY20-25E. This shall be achieved through a mix of growth and potential escalations/repricing.
- **Balance sheet stable, borrowing costs trending down:** PML balance sheet is robust as large part of debt is secured by LRDs. On the back of strong financial performance, PML has one of the best interest rates vs peers and has seen a decreasing trend in the past six years on interest costs. Net D/E is stable at 1.2x as of FY20. A huge part of the debt is for retail malls.
- **Residential inventory monetization key for further re-rating:** PML has a (nearing completion) residential inventory of Rs 14bn, monetisation of which may take off the pressure on retail malls Capex and bridge the cash shortfall of Rs 6.2bn over FY21-22E. The company also has office portfolio of Rs 2bn with a robust development pipeline. We await more detailed plans on new office Capex timelines and financial tie-ups. We currently capture the same as 10% NAV premium (Rs 75/sh).

Financial summary*

Year Ending March (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	18,246	16,198	19,816	19,411	10,643	18,969	21,972
EBITDA	8,469	7,776	9,931	9,671	4,611	9,717	12,214
APAT	1,673	2,423	4,211	3,347	(435)	2,615	4,224
Diluted EPS (Rs)	10.9	15.8	27.5	21.9	(2.84)	17.1	27.6
P/E (x)	59.4	41.0	23.6	29.7	(228.4)	38.0	23.5
EV / EBITDA (x)	15.9	17.9	14.4	14.8	31.6	15.4	12.1
RoE (%)	8.6	8.1	12.2	8.4	(2.1)	6.1	9.7

Source: Company, HSIE Research, * Consolidated

BUY

CMP *(as on 20 Aug 2020)*	Rs 649
Target Price	Rs 828
NIFTY	11,312

KEY STOCK DATA	
Bloomberg code	PHNX IN
No. of Shares (mn)	153
MCap (Rs bn) / ($ mn)	100/1,326
6m avg traded value (Rs mn)	116
52 Week high / low	Rs 980/465

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	32.6	(24.1)	3.2
Relative (%)	8.5	(17.0)	0.9

SHAREHOLDING PATTERN (%)	Dec-19	Mar-20
Promoters	59.11	59.11
FIs & Local MFs	9.90	10.17
FPIs	25.74	25.74
Public & Others	5.25	4.98
Pledged Shares	0.0	0.0

Source : BSE

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We have looked at revenue growth of some of the clients that occupy PML malls

Revenue growth of these retailers and consumption growth at PML malls have high correlation across categories

We expect PML to benefit from rise in consumer spend after consumption normalizes

Mall rental growth has high linearity with consumption growth

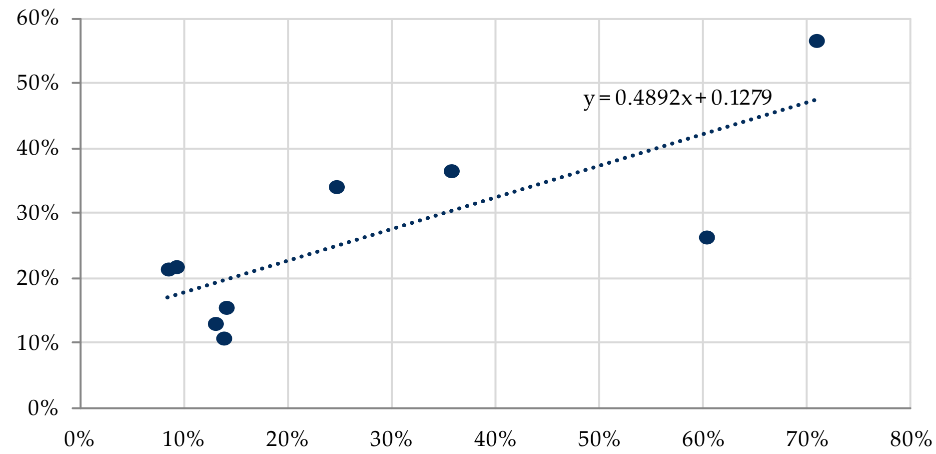
We have tried to map the categories universe growth with PML consumption growth and find high/significant linear relationship for the categories of apparels, grocery, entertainment, etc. As consumption share increases with rising income levels, it may lead to revenue share being higher than MG for these categories. PML may witness a higher overall rental CAGR. In terms of rising aspirations, we are seeing a post-COVID trend of consumers looking to ramp up spends on personal wellbeing and personal consumption, which bodes well for PML.

Retailers growth and PML growth (%)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Apparel	86	64	74	30	29	59	13	11	0
Beauty & spa	7	10	2	4	14	58	5	0	(7)
Department store	110	21	19	73	17	12	17	10	14
Entertainment	30	30	60	49	9	23	12	12	23
Food & beverages	26	43	32	23	16	14	9	18	(10)
Footwear	15	19	(7)	27	23	(4)	8	4	8
Grocery	167	58	58	19	4	82	72	7	14
Jewellery & accessories	47	33	16	36	14	1	8	22	16
Total	**57**	**34**	**26**	**37**	**16**	**22**	**22**	**13**	**11**
PML consumption growth YoY	**80**	**66**	**97**	**57**	**22**	**10**	**7**	**9**	**9**

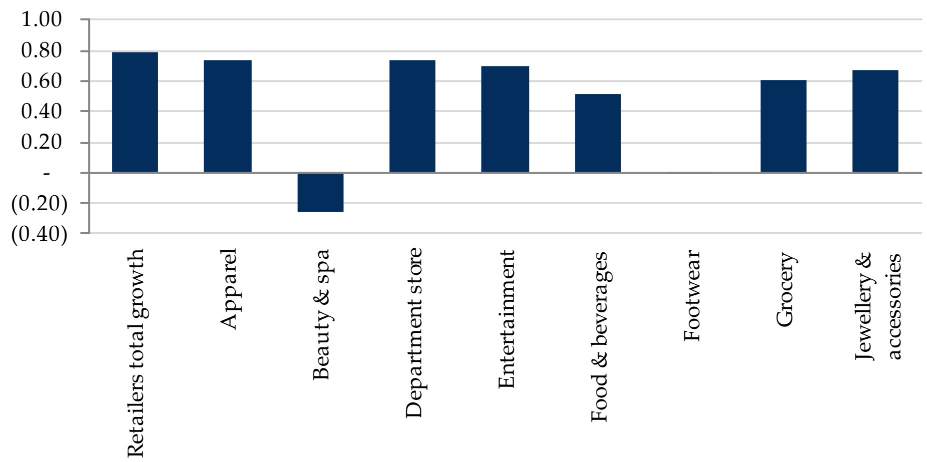
Source: Ace Equity, HSIE Research

Overall



Source: Ace Equity, HSIE Research

Correlation coefficients



Source: Ace Equity, HSIE Research

A large part of the asset portfolio is coming up for renewals over FY21-23E. In this challenging environment, it may be difficult to achieve the re-pricing potential and PML may have to continue with some reliefs to tenants. Though currently the rental negotiations have been deferred for few months

Repricing opportunity across the portfolio

Retail assets %	FY21E	FY22E	FY23E	Total
HSP & Palladium	16%	12%	24%	52%
PMC Kurla	24%	34%	13%	71%
PMC Pune	20%	19%	16%	55%
PMC Bangalore	26%	38%	11%	75%
PMC Chennai	20%	31%	25%	76%

Source: Company, HSIE Research

Key assets under construction provide growth potential to overall portfolio

Under-construction retail assets

Project Name	City	Leasable Area (mn sqft)	Cumulative Capex incurred (Rs mn)	Capex Remaining (Rs mn)	Status	Tentative commissioning
PMC Wakad	Pune	1.1	4,646	3,854	Excavation completed and work done till lower ground floor slab for part - 1	1HFY24
PMC Hebbel	Bengaluru	1.2	8,396	9,604	Excavation completed and foundation and basement slab work almost complete	1HFY24
PMC	Indore	1.0	3,118	4,382	The biggest retail destination of Madhya Pradesh; Work level is at an advanced stage	1HFY23
Palladium	Ahmedabad	0.7	4,598	3,402	95% excavation work completed	1HFY23
Palassio	Lucknow	0.9			Completed	2QFY21
Total		**4.9**	**20,758**	**21,242**		

Source: Company, HSIE Research

We forecast that PML's gross rental revenue would increase to Rs 19bn by FY25E (+90%). This will be achieved through a mix of escalation in operational assets rental and new additions of under-construction assets

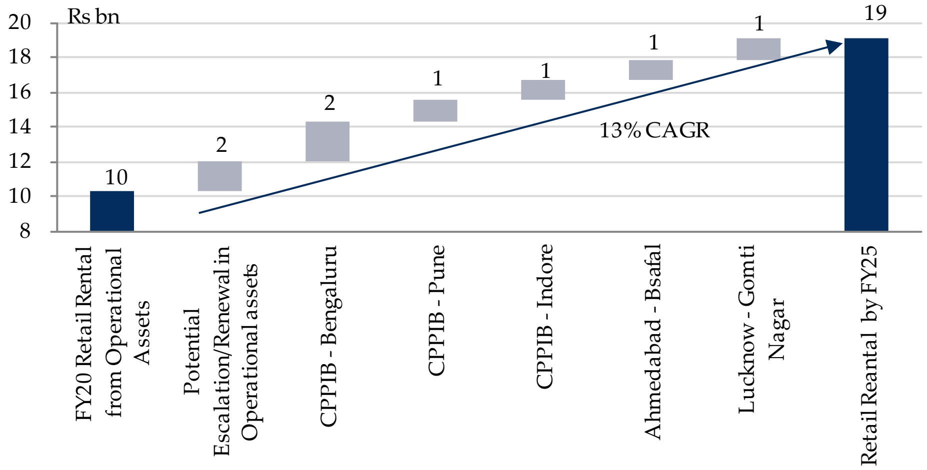
Gross retail assets rental potential

(Rs mn)	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
HSP Phoenix	3,486	1,496	3,419	3,755	3,975	4,155
Market Cities:						
MC Kurla (S)	1,273	519	1,218	1,308	1,373	1,442
MC Pune (S)	1,681	657	1,618	1,718	1,824	1,916
MC Bangalore East (S)	1,472	890	1,434	1,505	1,581	1,660
Chennai MC (A)	1,822	759	1,813	1,946	2,110	2,215
CPPIB – Bengaluru	-	-	-	-	1,711	2,275
CPPIB – Pune	-	-	-	-	490	1,303
CPPIB – Indore	-	-	-	424	1,069	1,123
Ahmedabad – Bsafal	-	-	-	-	407	1,100
Lucknow - Gomti Nagar	-	468	1,106	1,225	1,287	1,351
Total MC	6,248	3,293	7,187	8,126	11,851	14,384
PUM Lucknow (BARE)	318	176	267	301	301	346
PUM Bareilly (BARE)	224	124	217	244	244	281
BARE Total	542	299	485	545	545	627
Total Lease Rentals (Rs mn)	10,275	5,088	11,091	12,426	16,371	19,166
YoY Growth (%)		*-50%*	*118%*	*12%*	*32%*	*17%*

Source: Company, HSIE Research

For FY20-25E, we model for gross rental CAGR of 13%

Gross Retail rental income ramp up by FY25



Source: Company, HSIE Research

Asset-wise rental projection is highlighted in the exhibit. We have assumed 12-18 months delay in under-construction assets completion. We expect PML economic interest to translate to rentals increasing from Rs 8.6bn in FY20 to Rs 14.4bn in FY25E

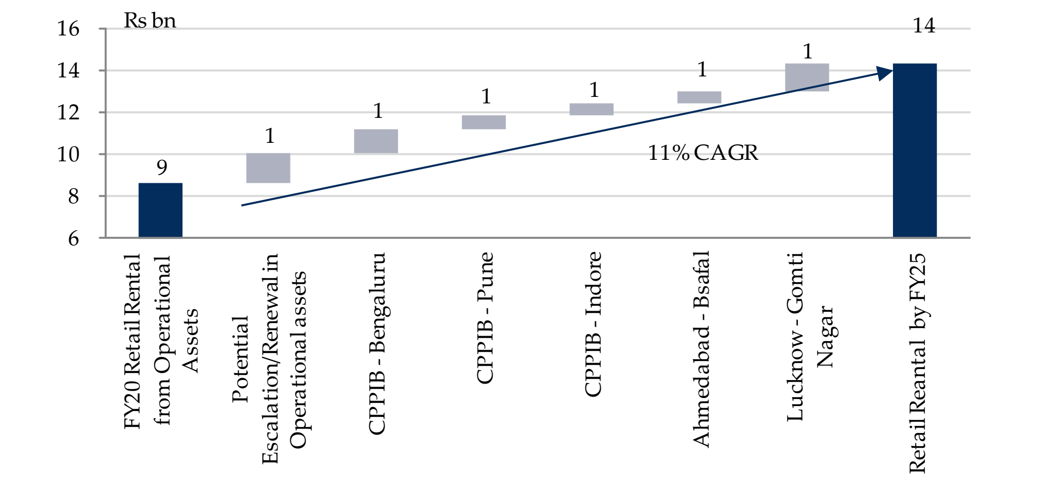
Our assumptions on rental escalation are conservative over near to medium term due to COVID-19 pandemic. We have factored in 4-5% annual escalation for base business rentals

For FY20-25E, we model for PML a share of rental CAGR of 11%

Retail rental-PML economic interest

(Rs mn)	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
HSP Phoenix	**3,486**	**1,496**	**3,419**	**3,755**	**3,975**	**4,155**
Market Cities:						
MC Kurla (S)	1,273	519	1,218	1,308	1,373	1,442
MC Pune (S)	1,681	657	1,618	1,718	1,824	1,916
MC Bangalore East (S)	750	454	731	768	806	846
Chennai MC (A)	911	380	907	973	1,055	1,108
CPPIB – Bengaluru	-	-	-	-	872	1,160
CPPIB – Pune	-	-	-	-	250	665
CPPIB – Indore	-	-	-	216	545	573
Ahmedabad – Bsafal	-	-	-	-	204	550
Lucknow - Gomti Nagar	-	468	1,106	1,225	1,287	1,351
Total MC	**4,616**	**2,477**	**5,579**	**6,208**	**8,216**	**9,610**
PUM Lucknow (BARE)	318	176	267	301	301	346
PUM Bareilly (BARE)	224	124	217	244	244	281
BARE Total	**542**	**299**	**485**	**545**	**545**	**627**
Total Lease Rentals (Rs mn)	**8,643**	**4,273**	**9,483**	**10,508**	**12,736**	**14,392**
YoY Growth (%)		*-51%*	*122%*	*11%*	*21%*	*13%*

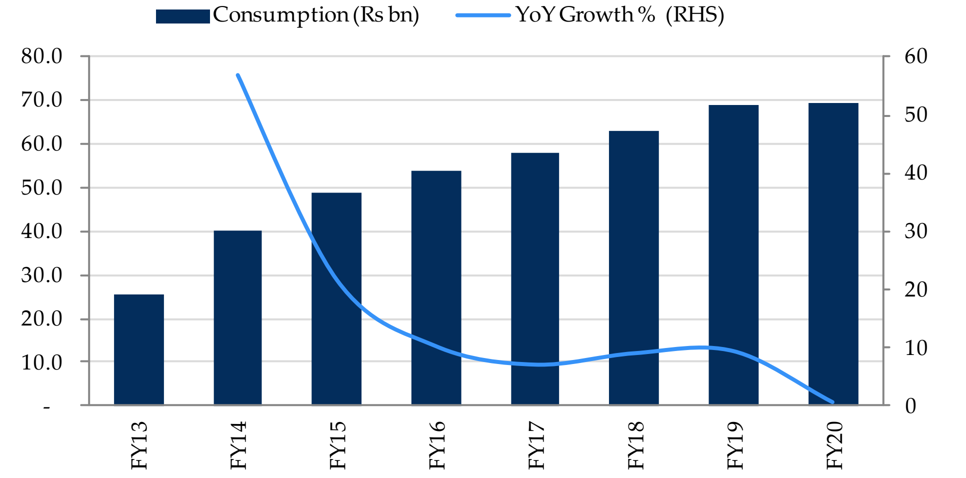
Retail rental income ramp up by FY25 (PML economic interest)



Source: Company, HSIE Research

Consumption growth has plateaued as assets mature and partly on account of COVID-19 lockdown during second half of 4QFY20

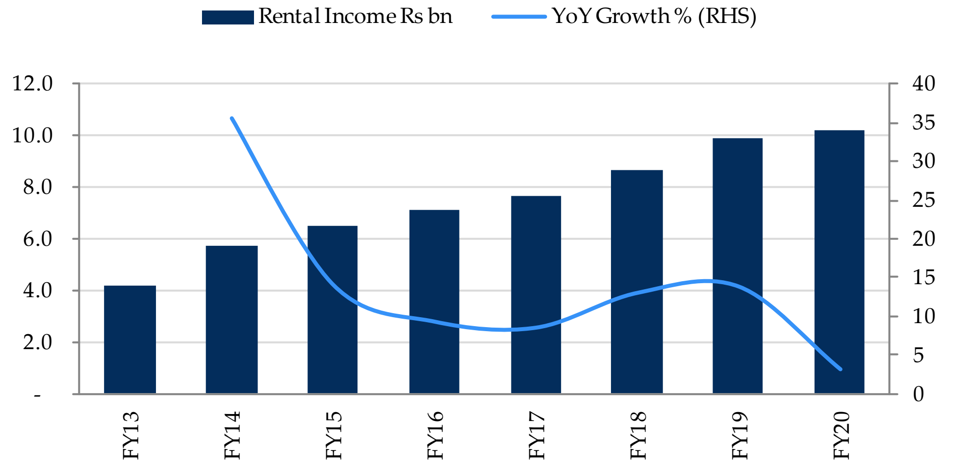
Consumption growth has plateaued



Source: Company, HSIE Research

Rental income growth also impacted by COVID-led lockdown during the second half of 4QFY20

Rental Income Growth



Source: Company, HSIE Research

PML enjoys one of the lowest borrowing costs amongst the peers

Balance sheet – stable, borrowing costs trending down

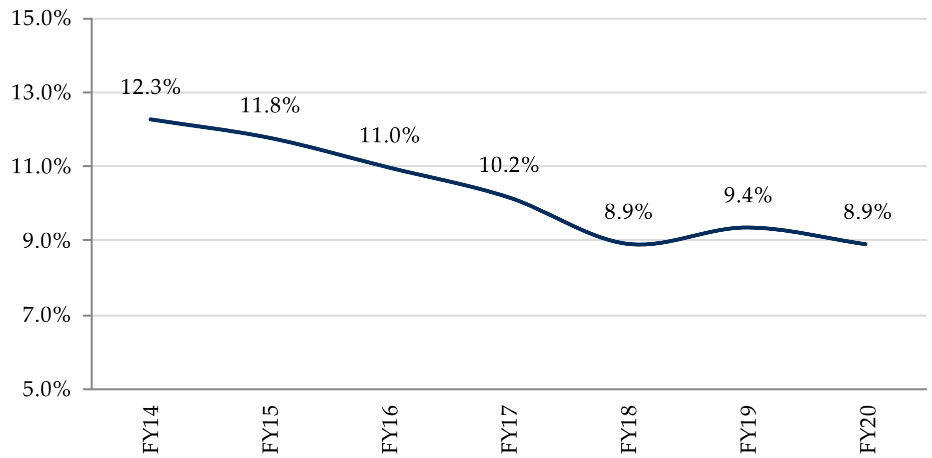
PML's balance sheet is strong, with a large part of the debt secured by LRDs. On the back of strong financial performance, the company has one of the best interest rates vs peers. We have seen a decreasing trend in the company for the past six years on interest costs.

A strong track record of timely mall delivery and quick ramp-up of occupancies have helped establish a robust execution capability

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Gross debt (Rs bn)	22	34	34	36	41	40	45	46
Cash (Rs bn)	1	1	1	2	6	0	2	1
Net debt (Rs bn)	21	33	33	34	36	40	44	44
Net D/E	1.2	1.9	2.0	1.8	1.8	1.4	1.3	1.2
Effective cost of debt (%)		12.3%	11.8%	11.0%	10.2%	8.9%	9.4%	8.9%
NWC (Days)	398	248	273	289	328	275	150	169

Source: Company, HSIE Research

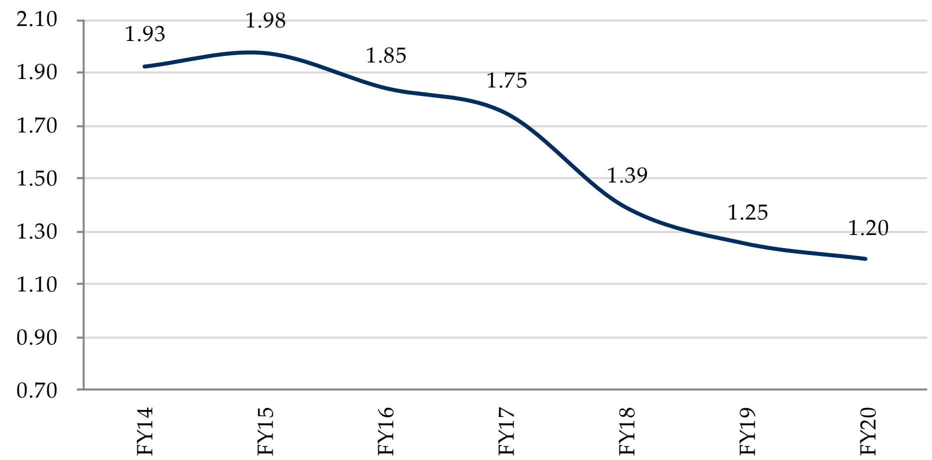
Effective Cost of Debt



Source: Company, HSIE Research

Net D/E has been reduced from 1.93x in FY14 to 1.2x FY20, driven by higher profitability and right mix of equity and debt in Capex

Net D/E Ratio



Source: Company, HSIE Research

CPPIB investment for the new under-construction malls also resulted in lower debt build-up

PML has unsold (nearing completion) residential inventory of Rs 14bn with pending collection of Rs 1.6bn. The total residual construction cost is Rs 1bn

We believe a large part of the company's inventory is in the luxury real estate segment and hence will take time to get monetised

PML has reconfigured the same to a smaller ticket size and sales traction is awaited

PML has current office rental potential of Rs 2bn and we have factored the same into our valuation

We have not ascribed any development value to future office pipeline as its still in early stages of conceptualization. We have though given a 10% NAV premium for same in overall PML valuation

Residential – Rs 14bn ready inventory monetisation key for re-rating

PML has launched two projects (OBW Tower 1 to 7 and Kessaku) in residential segment with a total saleable area of 2.83mn sqft, of which 1.58mn sqft had been sold until FY20-end. While OBW Tower 1-6 is complete, the company plans to incur Capex of ~Rs 1bn to complete OBW Tower 7 and Kessaku in FY21. PML is also looking to reconfigure its luxurious offerings under Kessaku to align them with current requirements. <u>The inventory of Rs 14bn and pending collection of Rs 1.6bn provide enough liquidity to carry out the Capex plans</u>. Besides, in the current circumstances, the company is not planning to launch new projects in the residential space. <u>Hence, with the monetization of inventory and collection of pending dues, the residential segment could provide Rs ~15bn positive cashflow in the near term.</u>

Residential projects

Project Name	Saleable area (mn sqft)			Area sold (mn sqft)	Sales value (Rs mn)
	Total	Launched	Balance		
One Bangalore West (OBW)*	2.41	1.80	0.61	1.31	12,724
Kessaku, Bengaluru	1.03	1.03	0.00	0.27	3,672
Total	**3.44**	**2.83**	**0.61**	**1.58**	**16,396**

Source: Company, HSIE Research; *Of the total 9 towers planned, only 1-6 has been launched & completed, and tower 7 was launched in July '19

Commercial – office rental of Rs 2bn, limited visibility on future expansion as of now

Commercial rental

(Rs mn)	FY20	FY21E	FY22E	FY23E
Art Guild House	446	354	406	423
Paragon Plaza	316	259	291	302
Fountainhead Towers 1-3	1,131	986	1,292	1,442
Commercial Rental	1,893	1,600	1,990	2,167
YoY Growth (%)		-15%	24%	9%

Source: Company, HSIE Research

We estimate FY21-22E cumulative cash deficit of Rs 6.2bn and hence fund raise is imminent

A large part of the deficit can be bridged by postponing capex, in absence of fund raise

Cashflow statement – we model for cumulative FY21-22E cash deficit of ~Rs 6.2bn

PML (Rs mn)	FY21E	FY22E
Inflows		
Customer collections	2,298	2,947
Rentals	5,088	11,091
Hospitality (net)	838	1,511
Property management (net)	2,165	3,711
Events/Other income/deposits	1,628	2,166
IPO/IPP Proceeds	-	-
Total inflow	**12,017**	**21,426**
Outflows		
Construction outflow	800	1,000
Corporate and staff	6,032	9,252
Construction/overheads total	6,832	10,252
Operational Cash flows	**5,185**	**11,175**
Interest payments	4,476	4,836
Income taxes	(243)	705
Total financial outflows	**4,233**	**5,541**
Net cash flow (post interest)	**952**	**5,634**
Rental Capex		
Office	500	500
Retail	3,300	7,000
Hotels		
Total capex	**3,800**	**7,500**
Cash flow post capex	**(2,848)**	**(1,866)**
Land payments		
Stake buyouts (Cessna and others)		
Dividend paid	627	627
Principal Repayment	2,500	3,500
Capital outflows	**3,127**	**4,127**
Net inflows	**(5,974)**	**(5,991)**
Cash in hand ex DSRA	5,775	(199)
Net shortfall	**(199)**	**(6,192)**

Source: Company, HSIE Research

PML-owned assets

PML witnessed a 61% YoY decline in rental income during 1QFY21 on account of lockdown and High Street Phoenix (HSP) remaining shut for the entire quarter. We expect a gradual pickup in consumption as the mall has opened from 5 August 2020, though weakness may persist as footfalls remain weak. Only genuine need-based buyers are visiting the mall. We expect consumption to remain at subdued and sub-25% levels with gradual ramp-up towards the festive season up to Diwali.

Quarterly Performance

	1Q FY21	1Q FY20	4Q FY20	YoY (%/bps)	QoQ (%/bps)	FY20	FY19	YoY (%/bps)
Rental Area (mn sqft)	0.77	0.77	0.77	-	-	0.77	0.77	-
Rental Rate (Rs/sqft/month	-	406	403	NA	NA	401	388	3.4
Occupancy (%)	0%	93%	94%	NA	NA	95%	95%	-
Trading Density (Rs/sqft/month)	-	3,025	3,208	NA	NA	3,167	2,943	7.6
Consumption (Rs mn)	-	4,228	3,663	NA	NA	17,103	17,044	0.3
Rental Income	344	881	780	(61.0)	(55.9)	3,486	3,432	1.6
Recoveries	57	252	202	(77.4)	(71.8)	959	974	(1.5)
Total Income	401	1,133	982	(64.6)	(59.2)	4,445	4,406	0.9
EBITDA	269	780	797	(65.5)	(66.2)	3,049	3,029	0.7
EBITDA margin on Rental Income	78%	89%	102%	(1,034)	(2,398)	87%	88%	(79)
EBITDA margin on Total Income	67%	69%	81%	(176)	(1,408)	69%	69%	(15)

Source: Company, HSIE Research

Phoenix Market City Bengaluru

Market City Bengaluru rental income fell by 67% YoY during the quarter as the mall remained shut for a good part of 1QFY21. Since early June, Market City has resumed operations with 82% GLA, and daily consumption had reached 38% as of June '20 level during the third week.

Quarterly Performance

	1Q FY21	1Q FY20	4Q FY20	YoY (%/bps)	QoQ (%/bps)	FY20	FY19	YoY (%/bps)
Rental Area (mn sqft)	0.98	0.98	0.98	-	-	0.98	0.98	-
Rental Rate (Rs/sqft/month	-	124	130	NA	NA	129	119	8.4
Occupancy (%)	0%	97%	98%	NA	NA	97%	98%	(100)
Trading Density (Rs/sqft/month)	-	1,749	1,670	NA	NA	1,795	1,680	6.8
Consumption (Rs mn)	-	3,364	2,552	NA	NA	13,140	12,843	2.3
Rental Income	120	359	307	(66.6)	(60.9)	1,426	1,392	2.4
Recoveries	72	184	157	(60.9)	(54.1)	703	678	3.7
Total Income	192	543	464	(64.6)	(58.6)	2,129	2,070	2.9
EBITDA	135	385	297	(64.9)	(54.5)	1,457	1,419	2.7
EBITDA margin on Rental Income	113%	107%	97%	526	1,576	102%	102%	23
EBITDA margin on Total Income	70%	71%	64%	(59)	630	68%	69%	(11)

Source: Company, HSIE Research

Phoenix Market City Pune

Rental income from Market City Pune fell by 71% YoY during the quarter. The mall was closed for entire 1QFY21 and has reopened on 5 August 2020. We expect a slight recovery from 2QFY21.

Quarterly Performance

	1Q FY21	1Q FY20	4Q FY20	YoY (%/bps)	QoQ (%/bps)	FY20	FY19	YoY (%/bps)
Rental Area (mn sqft)	1.13	1.13	1.13	-	-	1.13	1.13	-
Rental Rate (Rs/sqft/month	-	125	128	NA	NA	128	116	10.3
Occupancy (%)	0%	98%	95%	NA	NA	96%	96%	-
Trading Density (Rs/sqft/month)	-	1,441	1,338	NA	NA	1,453	1,334	8.9
Consumption (Rs mn)	-	3,331	2,371	NA	NA	12,593	12,207	3.2
Rental Income	125	432	350	(71.1)	(64.3)	1,667	1,589	4.9
Recoveries	47	206	174	(77.2)	(73.0)	778	793	(1.9)
Total Income	172	638	524	(73.0)	(67.2)	2,445	2,382	2.6
EBITDA	118	440	324	(73.2)	(63.6)	1,645	1,566	5.0
EBITDA margin on Rental Income	94%	102%	93%	(745)	183	99%	99%	13
EBITDA margin on Total Income	69%	69%	62%	(36)	677	67%	66%	154

Source: Company, HSIE Research

Phoenix Market City Kurla

Rental income came down by 73% YoY as the mall remained shut during the lockdown period. The mall has reopened from 5 August 2020.

Quarterly Performance

	1Q FY21	1Q FY20	4Q FY20	YoY (%/bps)	QoQ (%/bps)	FY20	FY19	YoY (%/bps)
Rental Area (mn sqft)	1.1	1.1	1.1	-	-	1.1	1.1	-
Rental Rate (Rs/sqft/month	-	101	110	NA	NA	106	98	8.2
Occupancy (%)	0%	93%	93%	NA	NA	92%	95%	(300)
Trading Density (Rs/sqft/month)	-	1,222	1,129	NA	NA	1,226	1,174	4.4
Consumption (Rs mn)	-	2,589	1,896	NA	NA	9,791	9,559	2.4
Rental Income	87	323	283	(73.1)	(69.3)	1,265	1,216	4.0
Recoveries	53	181	153	(70.7)	(65.4)	736	750	(1.9)
Total Income	140	504	436	(72.2)	(67.9)	2,001	1,966	1.8
EBITDA	78	323	242	(75.9)	(67.8)	1,229	1,188	3.5
EBITDA margin on Rental Income	90%	100%	86%	(1,034)	414	97%	98%	(54)
EBITDA margin on Total Income	56%	64%	56%	(837)	21	61%	60%	99

Source: Company, HSIE Research

Phoenix Market City Chennai

Market City Chennai witnessed a 66% YoY decline in rental income during the quarter as the mall remained shut for 1QFY21.

Quarterly Performance

	1Q FY21	1Q FY20	4Q FY20	YoY (%/bps)	QoQ (%/bps)	FY20	FY19	YoY (%/bps)
Rental Area (mn sqft)	0.98	0.98	0.98	-	-	0.98	0.98	-
Rental Rate (Rs/sqft/month	-	139	139	NA	NA	139	134	3.7
Occupancy (%)	0%	99%	96%	NA	NA	96%	93%	300
Trading Density (Rs/sqft/month)	-	1,435	1,259	NA	NA	1,363	1,394	(2.2)
Consumption (Rs mn)	-	2,677	2,256	NA	NA	11,255	11,068	1.7
Rental Income	134	394	385	(66.0)	(65.2)	1,736	1,528	13.6
Recoveries	57	206	233	(72.3)	(75.5)	943	862	9.4
Total Income	191	600	618	(68.2)	(69.1)	2,679	2,390	12.1
EBITDA	124	437	346	(71.6)	(64.2)	1,733	1,625	6.6
EBITDA margin on Rental Income	93%	111%	90%	(1,838)	267	100%	106%	(652)
EBITDA margin on Total Income	65%	73%	56%	(791)	893	65%	68%	(330)

Source: Company, HSIE Research

Operational retail assets

Retail Assets	City	GLA (mn sqft)	Occupancy	FY20 (Rs mn)	
				Consumption	Rental
HSP & Palladium	Mumbai	0.77	95%	17,102	3,486
MC Kurla (S)	Mumbai	1.14	92%	9,790	1,270
PMC	Pune	1.19	96%	12,592	1,667
PMC	Bengaluru	1.00	97%	13,140	1,426
PMC & Palladium	Chennai	1.22	96%	11,538	1,809
PUM	Lucknow	0.33		3,113	318
PUM	Bareilly	0.31		2,033	224
Total		**5.96**		**69,308**	**10,200**

Source: Company, HSIE Research

Malls open during – 1QFY21

Asset Name	City	GLA (mn sqft)			Operational (%)	Avg. daily spend vs Jun'19		
		Total	Permissible	Operational		Week 1	Week 2	Week 3
PMC	Bengaluru	1.00	0.83	0.67	81%	32%	35%	38%
Phoenix United	Lucknow	0.33	0.27	0.23	85%	99%	82%	86%
Phoenix United	Bareilly	0.31	0.25	0.22	88%	33%	29%	34%

Source: Company, HSIE Research

We initiate BUY on PML with NAV based SOTP of Rs 828/sh. We have ascribed 10% NAV premium to factor in future office development plans

Under construction Malls GNAV	Rs/sh
Pune-Wakad	18
Bengaluru-Hebbel	46
Indore	13
Ahmedabad	12
GNAV	89

Valuation–NAV-based target price of Rs 828/sh

SOTP valuation

We initiate PML with a BUY and SOTP of Rs 828/sh. We have adopted the DCF methodology to arrive at PML's NAV/sh. We value the real estate business (annuity + residential) at Rs 829/sh, hotels at Rs84/sh, office assets at Rs 43/sh and other assets (PUM Lucknow & PUM Bareilly) at Rs 46/sh. We do not ascribe any NAV discount to PML as we have only valued the projects which have visibility over the next five years. Subsequently, we reduce our valuation by Rs 250/sh to account for net debt of Rs 38bn (PML's economic interest) We ascribe a 10% NAV premium to factor in the potential office development pipeline. We arrive at NAV-based SOTP of Rs 828/sh.

Valuation summary

Project name	NAV - Rs mn	PML stake	PML Share of NAV - Rs mn	Value (Rs/sh)
High Street Phoenix	39,377	100%	39,377	257
Market Cities			*87,397*	*571*
Kurla Market City	15,262	100%	15,262	100
Pune Market City	18,453	100%	18,453	121
Bangalore East - Whitefield Market City	19,443	51%	9,916	65
Pune MC- Wakad	5,427	51%	2,768	18
Bengaluru Hebbal Market City	13,905	51%	7,092	46
Indore Market City	3,882	51%	1,980	13
Ahmedabad Market City	3,613	50%	1,807	12
Lucknow - Gomti Nagar Market City	12,861	100%	12,861	84
Bangalore West - Malleswaram (OBW & Kessaku)	8,400	80%	6,720	44
Chennai Market City	21,075	50%	10,540	69
Total			**126,774**	**829**
Add: Value of other assets/subsidiaries				-
Shangri-La Hotel, HSP	17,507	73%	12,780	84
PUM Lucknow, BARE	3,591	100%	3,591	23
PUM Bareilly, BARE	3,530	100%	3,530	23
Office Assets	6,623	100%	6,623	43
Total			**153,298**	**964**
Less: Consolidated Net Debt - FY20 (adjusted for Shangri-La CCDs)	46,297	83%	38,195	250
Less: Balance for SPV stake buyouts			-	-
NAV			**115,103**	**752**
Premium for future development pipeline – 10%			**11,510**	**75**
SOTP NAV			**126,613**	**828**

Source: Company, HSIE Research

Retail Malls- Key Assumptions

Mall	Status	WACC	CAP Rate
HSP Phoenix	Operational	12.0%	10.1%
MC Kurla (S)	Operational	11.0%	9.0%
MC Pune (S)	Operational	11.0%	9.0%
MC Bangalore East (S)	Operational	11.0%	9.0%
PUM Lucknow (BARE)	Operational	11.0%	9.0%
PUM Bareilly (BARE)	Operational	11.0%	9.0%
Chennai MC (A)	Operational	11.0%	9.0%
Lucknow - Gomti Nagar	Operational	11.0%	9.0%
CPPIB - Bengaluru	Under Construction	12.5%	10.5%
CPPIB - Pune	Under Construction	12.5%	10.5%
CPPIB - Indore	Under Construction	12.5%	10.5%
Ahmedabad - Bsafal	Under Construction	12.5%	10.5%

Source: Company, HSIE Research

NAV Sensitivity Analysis

1% increase in WACC impacts our NAV negatively by 4%

Sensitivity to WACC

- Our model is sensitive to changes in WACC assumptions. In our base case, we have assumed WACC in the range of 11-12.5%. For every 1% change in WACC, the NAV will change by approximately 4%.

% Change in WACC	-2	-1	11-12.5	1	2
NAV (Rs/sh)	912	868	828	790	756
% Change in NAV	10	5	-	-4	-9

Every 100bps increase in CAP rate impacts our NAV negatively by 8%

Sensitivity of NAV to changes in CAP rate

- In our base case, we have assumed a CAP rate in the range of 9-10.5%. For every 100bps change in the CAP rate, the NAV will change by approximately 8%.

% Change in CAP Rate	-2	-1	9-10.5	1	2
NAV (Rs/sh)	1,003	905	828	765	713
% Change in NAV	21	9	-	-8	-14

100bps increase in lease escalation rate increases our NAV by 4%

Sensitivity of NAV to changes in lease escalation rate

- In our base case, we have assumed a lease escalation rate of 5%. For every 100bps change in the lease escalation rate, the NAV will change by approximately 4%.

% Change in lease rental escalation rate	-2	-1	5	1	2
NAV (Rs/sh)	760	793	828	863	900
% Change in NAV	-8	-4	-	4	9

No listed history of Indian's Retail REITs – consumption sector close proxy play

PML does not have a listed pure-play retail mall proxy for comparison; hence, it is difficult to draw a peer group for the company. As per our analysis earlier, the company is a derivative play on consumption; in the exhibit below, we juxtapose PML's key financial parameters with the HSIE coverage universe. We believe the current valuation ratios leave enough headroom for re-rating once consumption picks up. PML is a well-placed proxy to ride the consumption re-rating.

Company	Revenue CAGR				EBITDA CAGR			PAT CAGR			EV /EBITDA *	PE#	RoE*	RoCE*
	5yr	10yr	15yr	FY20-23E	5yr	10yr	15yr	5yr	10yr	15yr				
FMCG														
ITC	6	10	13	6	7	12	13	10	14	15	11	16	25	45
HUL	6	8	9	11	13	13	13	12	13	13	47	56	85	226
Nestle	6	9	12	10	7	10	12	12	10	14	54	63	71	74
Dabur	5	10	12	8	6	11	15	7	12	17	49	50	25	45
Britannia	9	12	13	11	16	26	21	17	30	21	49	45	32	43
GCPL	5	17	23	7	9	18	24	10	16	21	34	40	19	19
Marico	6	11	14	7	11	15	21	13	15	20	32	37	38	42
Colgate	4	8	11	7	8	10	14	8	7	14	32	40	54	65
Emami	7	10	18	4	5	11	22	1	11	21	22	26	25	23
Jubilant	14	25	30	7	17	24	35	26	27	47	42	59	28	28
UNSP	3	4	7	5	25	4	11	33	9	9	29	47	23	16
Radico	10	8	13	7	17	8	12	26	11	13	15	17	18	14
FMCG Average											**35**	**41**	**37**	**53**
Consumer durable														
Havells	12	15	21	7	8	13	20	10	12	22	34	41	17	21
Voltas	8	5	12	4	11	4	19	10	4	18	29	31	13	22
Crompton	26	NA	NA	6	30	NA	NA	40	NA	NA	26	33	30	39
Symphony	16	19	29	2	10	15	NA	9	17	NA	26	33	28	42
V-Guard	7	19	21	8	14	17	22	20	21	26	26	32	19	20
TTK Prestige	9	NA	NA	8	10	NA	NA	13	NA	NA	27	33	16	20
Consumer durable average											**28**	**34**	**20**	**27**
Retail														
Titan	12	16	NA	9	17	20	NA	13	20	NA	42	60	23	15
Avenue Supermarts	31	38	NA	21	35	42	NA	45	51	NA	68	66	16	16
Trent	19	19	NA	10	59	32	NA	9	14	NA	36	176	7	9
ABFRL	36	NA	NA	4	45	NA	NA	NM	NM	NM	27	NM	-6	-10
V-MART	18	28	NA	11	17	20	NA	13	20	NA	25	39	18	18
Shoppers Stop	-4	9	NA	1	-8	5	NA	NM	NM	NA	8	NM	NM	NM
TCNS Clo	31	NA	NA	4	17	20	NA	13	20	NA	22	39	23	15
Retail Average											**33**	**76**	**14**	**10**
Phoenix Mills	**3**	**32**	**NA**	**4**	**4**	**29**	**NA**	**41**	**18**	**NA**	**15**	**38**	**8**	**9**

Source: Company, HSIE Research, *FY20, #FY22E

Financials

Consolidated Income Statement

Year ending March (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	**16,533**	**17,786**	**18,246**	**16,198**	**19,816**	**19,411**	**10,643**	**18,969**	**21,972**
Growth (%)	*14.1*	*7.6*	*2.6*	*(11.2)*	*22.3*	*(2.0)*	*(45.2)*	*78.2*	*15.8*
Material Expenses	2,567	4,725	4,404	1,319	2,189	1,959	783	862	948
Employee Expenses	915	1,233	1,403	1,473	1,615	1,655	1,573	1,651	1,734
Other Operating Expenses	5,186	3,957	3,970	5,630	6,080	6,126	3,676	6,739	7,075
EBIDTA	**7,865**	**7,871**	**8,469**	**7,776**	**9,931**	**9,671**	**4,611**	**9,717**	**12,214**
EBIDTA (%)	*47.6*	*44.3*	*46.4*	*48.0*	*50.1*	*49.8*	*43.3*	*51.2*	*55.6*
EBIDTA Growth (%)	*15.9*	*0.1*	*4.9*	*3.4*	*4.4*	*(0.6)*	*(13.0)*	*18.2*	*8.5*
Other Income	312	312	472	556	851	585	614	645	677
Depreciation	1,681	1,773	1,953	1,983	2,042	2,076	2,586	2,661	2,781
EBIT	6,497	6,410	6,988	6,349	8,740	8,180	2,640	7,701	10,111
Interest	3,956	4,305	4,230	3,476	3,506	3,478	3,854	4,177	4,100
Exceptional items	938	387	-	-	481	78	-	-	-
PBT	**1,603**	**1,718**	**2,758**	**2,873**	**5,716**	**4,780**	**(1,214)**	**3,524**	**6,011**
Tax	493	746	858	758	1,098	1,221	(243)	705	1,202
PAT	**1,110**	**972**	**1,900**	**2,115**	**4,617**	**3,559**	**(972)**	**2,819**	**4,809**
Minority Interest	553	203	212	135	760	538	(194)	564	962
Share of associates	43	17	(15)	442	353	326	342	360	378
EO items (net of tax)	-	-	-	-	-	-	-	-	-
APAT	**600**	**786**	**1,673**	**2,423**	**4,211**	**3,347**	**(435)**	**2,615**	**4,224**
APAT Growth (%)	*(53.3)*	*31.0*	*112.8*	*44.8*	*73.8*	*(20.5)*	*NA*	*NA*	*61.6*
EPS	**2.4**	**5.1**	**10.9**	**15.8**	**27.5**	**21.9**	**(2.8)**	**17.1**	**27.6**
EPS Growth (%)	*(72.4)*	*110.3*	*112.8*	*44.8*	*73.8*	*(20.5)*	*NA*	*NA*	*NA*

Source: Company, HSIE Research

Consolidated Balance Sheet

As at March (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS									
Share Capital	290	306	306	306	307	307	307	307	307
Reserves	16,447	18,380	20,053	28,213	34,435	36,777	35,716	37,704	41,302
Total Shareholder's Funds	**16,737**	**18,686**	**20,359**	**28,519**	**34,741**	**37,083**	**36,022**	**38,010**	**41,608**
Minority Interest	6,212	4,511	4,723	4,661	12,233	12,788	12,594	13,157	14,119
Long Term Debt	33,834	34,004	39,004	34,509	39,810	41,075	45,075	49,075	50,075
Short Term Debt	189	2,432	2,432	5,612	5,659	4,656	4,656	4,656	4,656
Total Debt	**34,023**	**36,436**	**41,436**	**40,121**	**45,469**	**45,731**	**49,731**	**53,731**	**54,731**
Deferred Taxes	(1,047)	(1,108)	(1,108)	(1,394)	(1,390)	(612)	(612)	(612)	(612)
Long Term Provisions & Others	-	-	-	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	**55,925**	**58,524**	**65,409**	**71,907**	**91,053**	**94,990**	**97,735**	**1,04,287**	**1,09,846**
APPLICATION OF FUNDS									
Net Block	41,303	43,530	44,077	52,939	61,489	60,795	62,092	61,740	62,654
CWIP	2,138	1,949	1,949	5,025	8,960	15,341	13,269	18,496	21,142
Goodwill	-	-	-	3,711	3,711	3,711	3,711	3,711	3,711
Investments, LT Loans & Advances	1,997	1,860	2,360	8,290	7,450	5,897	5,897	7,897	9,897
Inventories	11,783	13,240	15,240	6,615	8,986	8,161	7,661	7,161	6,661
Debtors	2,192	3,201	3,701	1,292	1,955	2,017	2,117	2,217	2,317
Cash & Equivalents	920	1,956	5,788	406	1,920	1,407	3,434	3,252	6,296
ST Loans & Advances, Others	5,032	6,181	7,731	5,450	5,298	7,532	7,682	7,832	7,982
Total Current Assets	19,927	24,577	32,459	13,763	18,159	19,117	20,894	20,462	23,257
Creditors	1,050	1,217	1,339	1,099	1,479	1,626	1,789	1,968	2,165
Other Current Liabilities & Provns	8,390	12,175	14,098	10,722	7,237	8,245	6,340	6,052	8,648
Total Current Liabilities	9,441	13,392	15,436	11,821	8,716	9,871	8,129	8,020	10,813
Net Current Assets	**10,487**	**11,185**	**17,023**	**1,942**	**9,444**	**9,246**	**12,765**	**12,443**	**12,443**
Misc Expenses & Others	-	-	-	-	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	**55,925**	**58,524**	**65,409**	**71,907**	**91,053**	**94,990**	**97,735**	**1,04,287**	**1,09,846**

Source: Company, HSIE Research

Consolidated Cash Flow

Year ending March (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PAT	600	786	1,673	2,423	4,211	3,347	(435)	2,615	4,224
Non-operating & EO items	510	186	227	(308)	407	212	(537)	204	584
PAT from Operations	1,110	972	1,900	2,115	4,617	3,559	(972)	2,819	4,809
Interest expenses	3,956	4,305	4,230	3,476	3,506	3,478	3,854	4,177	4,100
Depreciation	1,681	1,773	1,953	1,983	2,042	2,076	2,586	2,661	2,781
Working Capital Change	(1,419)	338	(2,006)	7,417	(5,749)	(985)	(1,492)	141	3,043
OPERATING CASH FLOW (a)	**5,327**	**7,388**	**6,078**	**14,991**	**4,417**	**8,129**	**3,976**	**9,798**	**14,733**
Capex	(266)	(4,000)	(2,500)	(15,013)	(14,606)	(7,801)	(1,811)	(7,536)	(6,340)
Free cash flow (FCF)	5,061	3,388	3,578	(23)	(10,189)	327	2,165	2,262	8,393
Investments	(999)	137	(500)	(440)	609	0	0	(2,000)	(2,000)
INVESTING CASH FLOW (b)	**(1,265)**	**(3,863)**	**(3,000)**	**(15,454)**	**(13,997)**	**(7,801)**	**(1,811)**	**(9,536)**	**(8,340)**
Share capital Issuance	(120)	2,826	0	6,322	9,035	63	0	0	0
Debt Issuance	(38)	2,413	5,000	410	5,301	878	4,000	4,000	1,000
Interest expenses	(4,017)	(4,305)	(4,230)	(3,516)	(3,329)	(3,256)	(3,854)	(4,177)	(4,100)
Dividend	(372)	(509)	(394)	(442)	(480)	(555)	(627)	(627)	(627)
FINANCING CASH FLOW (c)	**(4,546)**	**424**	**376**	**2,774**	**10,527**	**(2,869)**	**(481)**	**(804)**	**(3,726)**
NET CASH FLOW (a+b+c)	**(484)**	**3,949**	**3,454**	**2,311**	**947**	**(2,542)**	**1,685**	**(541)**	**2,666**
Non-operating and EO items	1,156	0	394	(218)	(800)	(18)	-	-	-
Closing Cash & Equivalents	920	4,562	5,788	308	396	1,407	3,434	3,252	6,296

Source: Company, HSIE Research

Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)									
GPM	84.5	73.4	75.9	91.9	89.0	89.9	92.6	95.5	95.7
EBITDA Margin	47.6	44.3	46.4	48.0	50.1	49.8	43.3	51.2	55.6
APAT Margin	3.6	4.4	9.2	15.0	21.2	17.2	(4.1)	13.8	19.2
RoE	3.3	4.3	8.6	8.1	12.2	8.4	(2.1)	6.1	9.7
Core RoCE	17.3	21.5	20.5	10.0	11.9	9.5	2.9	8.2	10.3
RoCE	12.0	11.6	11.7	10.0	11.9	9.5	2.9	8.2	10.3
EFFICIENCY									
Tax Rate (%)	30.8	43.4	31.1	26.4	19.2	25.5	20.0	20.0	20.0
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.2	0.2
Inventory (days)	256	257	285	246	144	161	271	143	115
Debtors (days)	46	55	69	56	30	37	71	42	38
Payables (days)	29	23	26	27	24	29	59	36	34
Cash Conversion Cycle (days)	273	289	328	275	150	169	284	148	118
Debt/EBITDA (x)	4.3	4.6	4.9	5.2	4.6	4.7	10.8	5.5	4.5
Net D/E	2.0	1.8	1.8	1.4	1.3	1.2	1.3	1.3	1.2
Interest Coverage	1.6	1.5	1.7	1.8	2.5	2.4	0.7	1.8	2.5
PER SHARE DATA									
EPS (Rs/sh)	2.4	5.1	10.9	15.8	27.5	21.9	-2.8	17.1	27.6
CEPS (Rs/sh)	15.7	16.7	23.7	28.8	40.9	35.4	14.1	34.5	45.8
DPS (Rs/sh)	2.2	2.3	3.2	2.8	3.7	3.7	3.7	3.7	3.7
BV (Rs/sh)	115.4	122.1	133.1	186.4	227.1	242.4	235.4	248.4	272.0
VALUATION									
P/E	266.4	126.7	59.5	41.1	23.7	29.8	(229.1)	38.1	23.6
P/BV	5.6	5.3	4.9	3.5	2.9	2.7	2.8	2.6	2.4
EV/EBITDA	16.2	17.0	16.0	17.9	14.4	14.9	31.6	15.4	12.1
OCF/EV (%)	4.2	5.5	0.0	0.1	0.0	0.1	0.0	0.1	0.1
FCF/EV (%)	4.0	2.5	2.6	(0.0)	(7.1)	0.2	1.5	1.5	5.7
FCFE/Market Cap (%)	1.1	1.5	4.4	(3.1)	(8.3)	(2.1)	2.3	2.1	5.3
Dividend Yield (%)	0.3	0.4	0.5	0.4	0.6	0.6	0.6	0.6	0.6

Source: Company, HSIE Research

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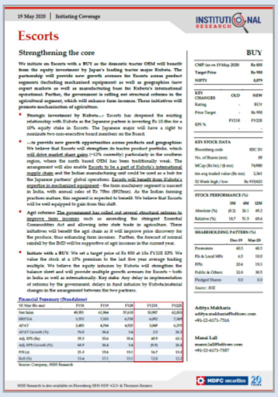

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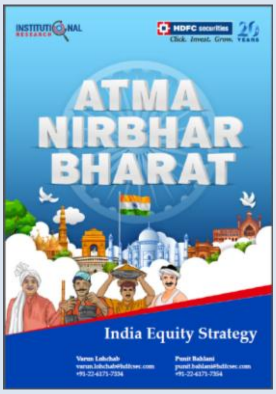

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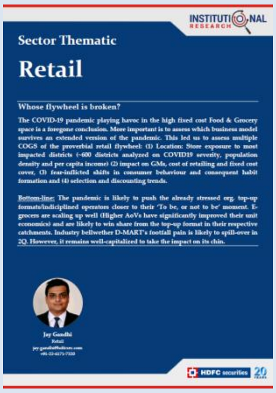

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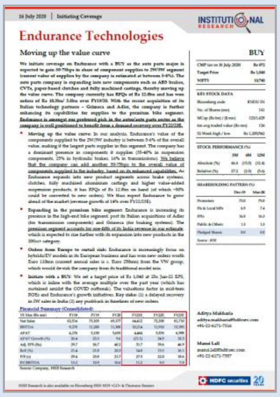

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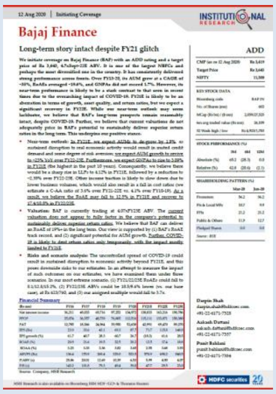

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Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

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