
Phoenix Mills: An attractive Real Estate & Consumption Story

India's real estate and hospitality sectors have seen remarkable transformations over the past few decades, evolving from traditional and fragmented markets into organised and rapidly growing industries. The real estate sector has been a cornerstone of India's economic development, contributing significantly to GDP and employment. Driven by rapid urbanisation, increasing income levels, and favourable government policies, the sector has witnessed the rise of modern infrastructure, smart cities, and integrated townships.

The hospitality sector, closely linked with real estate, has also grown by leaps and bounds. India's rich cultural heritage, diverse landscapes, and expanding business hubs have made it a global tourist destination. The growth of domestic travel and the influx of foreign tourists have spurred the development of luxury hotels, resorts, and mixed-use developments, integrating retail, entertainment, and accommodation. This synergy between real estate and hospitality paved the way for the emergence of key players who are shaping the future of these sectors.

Among these players, Phoenix Mills stands out as a trailblazer, with a rich legacy and a forward-looking approach that has made it a leader in the Indian real estate and hospitality industries. From its humble beginnings as a textile mill in 1905, Phoenix Mills has transformed into a diversified conglomerate, with a strong focus on developing and managing large-scale retail-led mixed-use properties and luxury hotels.

An Attractive Business Model

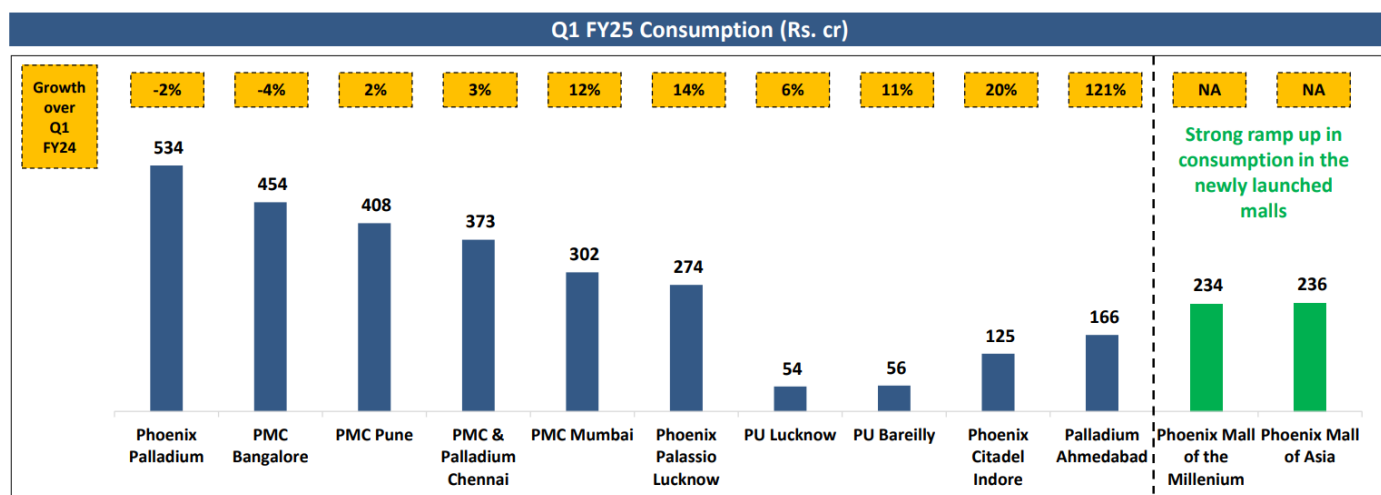
Phoenix Mills operates primarily through two segments: Property and Related Services and Hospitality. The Property and Related Services segment is the company's cornerstone, encompassing the development and management of large-scale retail-led mixed-use properties. Phoenix Mills pioneered the concept of destination malls in India, with flagship properties like High Street Phoenix in Mumbai, Palladium Mall, and Phoenix Market City malls across major metropolitan cities, which offer a unique blend of shopping, entertainment, and lifestyle experiences. The business has 10 operational malls, 2 hospitality assets, 5 commercial and 2 residential assets.

The hospitality segment, though a smaller part of the company's portfolio, complements its real estate operations. Phoenix Mills owns and operates luxury hotels, including The St. Regis Mumbai, which has become synonymous with opulence and world-class service. The integration of hospitality services within its retail complexes enhances the overall customer experience, driving higher footfalls and consumer engagement.

Recent Developments

Phoenix Mills has been actively expanding its footprint across India's top-tier cities, with several ongoing projects highlighting its growth trajectory. Notably, the company is developing new retail-led mixed-use properties in Indore (3.4m), Ahmedabad (7.4m), Bangalore (14m), and Pune (7.3m), which are all large cities in India. These projects are expected to add over 5.5 million square feet of retail space to its portfolio by 2025, reinforcing its position as the dominant player in India's mall industry. One of the most significant developments is the Phoenix Palladium in Ahmedabad, which is poised to be a landmark destination in the city. Scheduled to open in 2024, the mall will feature a mix of international and domestic brands, along with a variety of dining and

entertainment options. This project exemplifies Phoenix Mills’ commitment to creating high-quality, sustainable developments that cater to the evolving needs of Indian consumers.



Source: Phoenix Mills Q1FY25 Presentation

The chart above indicates the consumption growth being experienced across each of the Phoenix Mills malls. Whilst new malls are seeing a ramp up, some store sales growth have also been robust at 7% (Q1FY25 over Q1FY24). Overall consumption growth saw an increase of 25% in the quarter (year-on-year).

Financial Performance & Strategic Initiatives

Phoenix Mills has demonstrated resilient financial performance, with consistent revenue growth driven by its diversified asset base and robust rental income from its malls. Growth in consumption at their malls rose 23% in FY24 over the previous year. Rental growth was 27% over the same period. This was driven by rising like-for-like sale growth in existing malls as well as growth as new malls. Over 50% of consumption comes from Fashion & Accessories, with contributions also from Electronics, Jewellery and Food & Beverages.

The company reported EBITDA growth of 44% in FY24 (over FY23) and 62% Profit After Tax growth. The firm maintained an attractive cost of debt of 8.8%, which is a spread of 230bps over the Cash Rate (6.50%). This led to an increase in operating cash flow of 27% year-on-year. Occupancy rates of established properties stand close to 90%. The company’s strategic focus on expanding its retail footprint, coupled with its prudent capital allocation, has resulted in a strong balance sheet with healthy liquidity. Phoenix Mills’ approach to acquiring land parcels in prime locations and entering joint ventures with local developers has allowed it to mitigate risks and maximize returns on investment.

Moreover, Phoenix Mills is leveraging technology to enhance operational efficiencies and improve customer experiences. The company is investing in digital initiatives, such as implementing advanced analytics for better consumer insights and deploying tech-enabled solutions for seamless shopping experiences. These initiatives are expected to further strengthen the company’s competitive edge in the rapidly evolving retail landscape.

Why we hold Phoenix Mills in our portfolio

The company’s extensive portfolio of high-quality assets, combined with its strategic expansion into emerging markets, positions it to benefit from the country’s rising urbanisation and increasing consumer spending.

Phoenix Mills’ focus has been on creating integrated, lifestyle-oriented developments ensures steady foot traffic and recurring revenue streams.

The India Avenue Equity Fund purchased shares in the company in 2019 when it appeared India’s consumption boom was slowing, and valuations were cheap. Post a difficult period during the pandemic, the company has emerged as a success story as urban consumption has rebounded significantly.



***Graph of stock price, indicating India Avenue Equity Fund initial buy point. Average buy price is Rs.999. Returns calculated are in INR terms.**

Source: Yahoo Finance

Outlook

Looking ahead, Phoenix Mills is poised for sustained growth as it continues to expand its retail and commercial footprint across India. The ongoing urbanisation, rising middle-class income levels, and growing consumer aspirations are expected to drive demand for premium retail and lifestyle destinations. Phoenix Mills’ strategic projects in high-growth cities and its commitment to delivering world-class experiences should translate into robust financial performance and shareholder value in the coming years.

In conclusion, Phoenix Mills offers a diversified portfolio, strategic expansions, and strong financial foundation making it an attractive investment for our portfolio.

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