

## Phase V revenues likely by FY22 end...

Nirlon's FY21 performance was muted. Revenues in FY21 grew 2.2% YoY to ₹ 316.9 crore. For Q4FY21, it was ₹ 77.1 crore, down 6% YoY. Occupancy, which was at 95.2%, was lower QoQ vs. 97.5% in Q3, as one large licensee moved out post expiry of their license. EBITDA for FY21 at ₹ 237.2 crore was up 2.7% YoY. PAT at ₹ 127.4 crore for FY21 was up 16.4% YoY, also aided by lower interest, due to capitalisation.

## License fee to grow at 35% CAGR to ₹ 503 crore in FY21-23E

Nirlon has an operational licensable area of ~1.9 msf across Phase I-IV at Nirlon Knowledge Park (NKP), of which, ~95.2% area has been licensed out. It clocked lease revenues of ₹ 255.6 crore in FY21. Occupancy was lower vs. 99.5% in FY20, as one large tenant has moved out post expiry of the licence term. Nonetheless, the company is in discussions to re-license the vacant area. Morgan Stanley has also agreed to license a further ~ 28,000 sq ft from June, 2021. The company's board has also proposed a final dividend of ₹ 8 per share for FY21, subject to approval by shareholders. Furthermore, post Phase V resumption, Nirlon's licensable area is expected to expand to ~3.1 msf. With this, we expect the company's license fee income to grow at 35% CAGR to ₹ 503 crore in FY21-23E.

## Phase V revenues to begin from FY22E end

The company is currently developing Phase-V at NKP with ~1.16 msf licensable area, lease revenues from which are expected to commence from FY22 end as it has received the OC in June, 2021. It has already entered into an agreement to license this entire area to JP Morgan thereby providing revenue certainty. Assuming full occupancy of the additional chargeable area, Phase V has the potential to contribute additional revenue of ~₹ 200 crore, without a proportionate increase in total operational costs, which would lead to improved margins. With all debt likely to be drawn by Q1FY22 for phase V, we expect debt to peak out by H1FY22E and decline thereafter as rental revenues kick in coupled with deposits in H2FY22.

## Valuation & Outlook

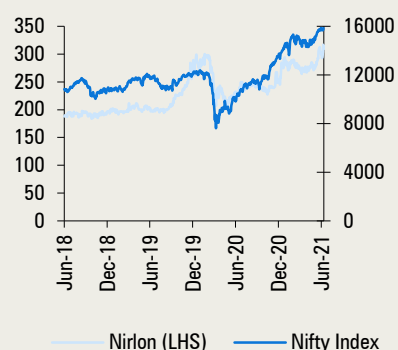
We like Nirlon given its quality Grade-A office assets and backing of Reco Berry – an affiliate of GIC. We expect its lease revenues to grow at 35% CAGR to ₹ 503 crore in FY21-23E, led by incremental leasing revenues flow through from phase V. We roll over our NAV to FY22E. We maintain **BUY** rating on the stock with an NAV-based target price of ₹ 400/share (earlier ₹ 355/share). In our valuations, we conservatively consider a 9% cap rate and 15% discount rate. We see deep value in the stock as the planned expansion is not factored in the CMP. Furthermore, clarity on future growth plans, as and when the company shares it, will be the other key catalyst, which will drive a re-rating.



### Particulars

Particulars	Amount (₹ crore)
Market Capitalization	2,788
Total Debt (FY21)	978
Cash (FY21)	3
EV	3,763
52 week H/L (₹)	321/ 225
Equity capital	90.1
Face value (₹)	10.0

### Price Performance



### Key risk to our call

- Any exit by key tenants and failure to release
- Overall supply in Goregaon micro market impacting Nirlon's occupancy

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### Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	298.7	310.0	316.9	381.6	581.2	35.4%
EBITDA	226.1	230.9	237.2	286.0	444.9	37.0%
EBITDA Margin(%)	75.7	74.5	74.8	75.0	76.6	
Net Profit	63.7	109.5	127.4	128.4	182.0	19.5%
EPS (₹)	7.1	12.1	14.1	14.2	20.2	
P/E(x)	43.8	25.5	21.9	21.7	15.3	
EV/EBITDA(x)	16.1	16.3	15.9	13.5	7.9	
RoE(%)	18.1	24.1	22.2	20.4	24.6	
RoCE(%)	12.4	10.5	10.8	11.2	16.2	

Source: ICICI Direct Research, Company

## Financial Summary

Exhibit 1: Profit and loss statement (₹ crore)				
₹ crore	FY20	FY21	FY22E	FY23E
Net Sales	310.0	316.9	381.6	581.2
Other Income	1.0	2.5	3.0	4.0
<b>Total revenues</b>	<b>311.0</b>	<b>319.4</b>	<b>384.6</b>	<b>585.2</b>
Property Management Expense:	32.4	30.8	38.2	58.1
Employee Cost	5.3	4.9	5.9	8.4
Other Expenditure	41.4	44.0	51.5	69.7
<b>Total Operating Expenditure</b>	<b>79.1</b>	<b>79.7</b>	<b>95.6</b>	<b>136.3</b>
EBITDA	230.9	237.2	286.0	444.9
Interest	32.1	14.0	54.1	90.0
Depreciation	53.3	48.7	62.5	114.6
PBT	146.5	176.9	172.3	244.3
Tax	37.0	49.5	43.9	62.3
<b>Reported PAT</b>	<b>109.5</b>	<b>127.4</b>	<b>128.4</b>	<b>182.0</b>
Minority Interests	-	-	-	-
<b>Profit for the company</b>	<b>109.5</b>	<b>127.4</b>	<b>128.4</b>	<b>182.0</b>
<b>EPS (₹)</b>	<b>12.1</b>	<b>14.1</b>	<b>14.2</b>	<b>20.2</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement (₹ crore)				
₹ crore	FY20	FY21	FY22E	FY23E
<b>PBT</b>	<b>146.5</b>	<b>176.9</b>	<b>172.3</b>	<b>244.3</b>
Depreciation	62.5	50.7	62.6	114.7
Interest paid	32.1	14.0	54.1	90.0
Cash Flow before wc changes	240.1	239.2	286.1	445.0
Net Increase in Current Assets	4.8	4.0	(19.9)	(40.6)
Net Increase in Current Liabilities	104.5	32.4	12.6	152.1
Taxes Paid	(37.0)	(49.5)	(43.9)	(62.3)
<b>Net cash flow from op. activities</b>	<b>312.4</b>	<b>226.1</b>	<b>234.7</b>	<b>494.2</b>
Purchase of Fixed Assets	(401.1)	(207.0)	(209.8)	(10.0)
Others	1.0	2.5	3.0	4.0
<b>Net cash flow from inv. activities</b>	<b>(400.1)</b>	<b>(204.5)</b>	<b>(206.8)</b>	<b>(6.0)</b>
Proceeds from Borrowing	135.6	(10.6)	200.0	(130.0)
Interest Paid	(32.1)	(14.0)	(54.1)	(90.0)
Dividend Paid	(8.1)	(6.8)	(72.1)	(72.1)
<b>Net cash flow from fin. activities</b>	<b>95.3</b>	<b>(31.4)</b>	<b>73.8</b>	<b>(292.1)</b>
Net Cash flow	7.6	(9.8)	101.7	196.1
Opening Cash	5.1	12.7	2.8	104.6
<b>Closing Cash</b>	<b>12.7</b>	<b>2.8</b>	<b>104.6</b>	<b>300.7</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
₹ crore	FY20	FY21	FY22E	FY23E
Equity Capital	90.1	90.1	90.1	90.1
Reserves & Surplus	363.7	484.3	540.6	650.5
Networth	453.8	574.4	630.7	740.7
Total Debt	989.0	978.4	1,178.4	1,048.4
Other non-current liabilities	257.1	223.0	208.7	278.6
<b>Source of Funds</b>	<b>1,699.9</b>	<b>1,775.8</b>	<b>2,017.8</b>	<b>2,067.6</b>
Gross Block	1,354.6	1,369.6	2,719.6	2,729.6
Less: Accumulated Dep	613.5	664.2	726.8	841.4
Net Block	741.2	705.5	1,992.9	1,888.2
Capital WIP	948.2	1,140.2	-	-
<b>Total Fixed Assets</b>	<b>1,689.4</b>	<b>1,845.7</b>	<b>1,992.9</b>	<b>1,888.2</b>
Other non-current assets	37.5	36.6	52.3	79.6
Inventories	-	-	-	-
Trade Receivables	3.9	1.9	2.3	3.5
Loans & Advances	2.2	2.2	2.7	4.0
Cash & Bank Balances	12.7	2.8	104.6	300.7
Other Current Assets	18.0	16.9	20.4	31.1
Total Current Assets	24.1	21.0	25.3	38.5
Trade Payable	8.6	7.0	8.5	12.9
Provisions	0.6	0.6	0.7	1.1
Other Current Liabilities	54.6	122.7	148.0	225.4
Total Current Liabilities	63.8	130.3	157.2	239.5
<b>Net Current Assets</b>	<b>10.5</b>	<b>(69.9)</b>	<b>24.9</b>	<b>179.4</b>
<b>Application of Funds</b>	<b>1,699.9</b>	<b>1,775.8</b>	<b>2,017.8</b>	<b>2,067.6</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY20	FY21	FY22E	FY23E
<b>Per Share Data</b>				
Reported EPS	12.1	14.1	14.2	20.2
Cash EPS	18.1	19.5	21.2	32.9
BVPS	50.4	63.7	70.0	82.2
<b>Operating Ratios</b>				
EBITDA / Net Sales	74.5	74.8	75.0	76.6
PAT / Net Sales	35.3	40.2	33.6	31.3
<b>Return Ratios</b>				
RoE	24.1	22.2	20.4	24.6
RoCE	10.5	10.8	11.2	16.2
RoIC	24.0	29.8	11.7	18.7
<b>Valuation Ratios</b>				
EV / EBITDA	16.3	15.9	13.5	7.9
P/E	25.5	21.9	21.7	15.3
EV / Net Sales	12.1	11.9	10.1	6.1
Market Cap / Sales	9.0	8.8	7.3	4.8
Price to Book Value	6.1	4.9	4.4	3.8
<b>Turnover Ratios</b>				
Asset turnover	0.2	0.2	0.2	0.3
Gross Block Turnover	0.2	0.2	0.1	0.2
<b>Solvency Ratios</b>				
Net Debt / Equity	2.2	1.7	1.7	1.0
Current Ratio	0.4	0.2	0.2	0.2
Quick Ratio	0.4	0.2	0.2	0.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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