

Phase V to boost revenues in FY23...

About the stock: Nirlon Ltd (Nirlon) is in the business of development and management of commercial/IT-ITeS real estate. It owns two primary assets: Nirlon Knowledge Park (NKP), ~ 23-acre IT Park in Goregaon (East), Mumbai and also 75% of undivided interest in ~ 0.05 million square feet in Nirlon House, Worli.

- GIC Singapore is a co-promoter through its affiliate, Reco Berry Pvt Ltd (Reco) of Singapore, and currently has a 63.92% holding

Q2FY22 Results: Nirlon reported a muted performance.

- Topline at ₹ 79.4 crore was down 0.8% YoY (up 5.7% QoQ). The occupancy slightly improved QoQ at 91.9% (vs. 90.6% in Q1), albeit down from 99.5% in Q2FY21 primarily on account of one large licensee moving out post expiry of their license, a part of which has been re-leased
- The EBITDA at ₹ 59.6 crore, was down 2.3% YoY (up 17.6% QoQ). QoQ growth was largely due to charge of waterproofing expenses and market fees amortisation in Q1
- PAT was up 1.2% YoY (up 27.6% QoQ) at ₹ 33.8 crore,

What should investors do? Nirlon's share price has given a return of 91% over the past five years.

- We maintain BUY rating on the company

Target Price and Valuation: We value Nirlon at ₹ 455/share.

Key triggers for future price performance:

- Quality Grade-A office assets and backing of Reco Berry – an affiliate of GIC
- We expect its lease revenues to grow at 34% CAGR to ₹ 496 crore in FY21-23E, led by incremental leasing revenues flow through from phase V
- Clarity over future growth plans as and when the company shares it, will drive further value potential

Alternate Stock Idea: Besides Nirlon, we like Mahindra Life in the realty sector.

- A play on expanding residential real estate portfolio
- BUY with a target price of ₹ 335



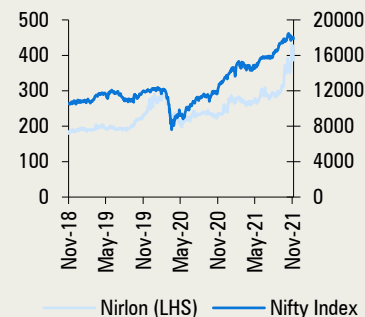
Particulars

Particulars	Amount (₹ crore)
Market Capitalization	3,484
Total Debt (FY21)	978
Cash (FY21)	3
EV	4,459
52 week H/L (₹)	445/ 225
Equity capital	90.1
Face value (₹)	10.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	70.5	70.5	70.5	70.5
DII	0.0	0.0	0.0	0.0
FII	12.9	13.2	13.3	13.3
Other	16.6	16.4	16.2	16.2

Price Chart



Key Risks

Key Risk: (i) Any exit by key tenants and failure to re-lease ii) Overall supply in Goregaon micro market impacting Nirlon's occupancy

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	5yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales	298.7	310.0	316.9	1.9%	370.5	565.6	33.6%
EBITDA	226.1	230.9	237.2	1.2%	277.7	441.2	36.4%
EBITDA Margin(%)	75.7	74.5	74.8		75.0	78.0	
Net Profit	63.7	109.5	127.4	23.9%	137.4	179.2	18.6%
EPS (₹)	7.1	12.1	14.1		15.2	19.9	
P/E(x)	55.2	32.1	27.6		25.6	19.6	
EV/EBITDA(x)	19.3	19.5	18.9		16.5	9.7	
RoE(%)	18.1	24.1	22.2		21.5	24.0	
RoCE(%)	12.4	10.5	10.8		10.8	16.0	

Key business highlight and outlook

- Licensing:** As on September 30, 2021, ~148,000 sq ft area was vacant, primarily on account of one large licensee moving out post expiry of their license. Of this 148,000 sq ft vacant area, Morgan Stanley has licensed and occupied ~38,000 sq ft in October 2021. Additionally, the company is in advanced discussions to license an additional ~ 51,000 sq ft in Q3FY22. With these, **the management expects vacancy to come to 64,000 sq ft by December 2021.** Furthermore, IBM has given notice to vacate ~37,000 sq ft in April 2022 (license was scheduled to expire in July 2022). Primary discussions have been initiated by the company to license this space also
- Phase V update:** Phase V under Nirlon Knowledge Park (NKP) received occupancy certificate on June 18, 2021 (construction cost was at ₹ 6,000/sq ft on chargeable area at 80% efficiency). However, handover is estimated in December 2021 and license fees are estimated to be begin during Q1FY23 as five months is the contracted license fee free period. For this phase V, the company has already entered into an agreement to license the entire area of 11,59,000 sq ft to JP Morgan. At full occupancy, **Phase V has the potential to contribute additional revenue of ~₹ 200 crore/annum. Also, without a proportionate increase in total operational costs, margins are likely to improve for the company**
- Debt status:** The outstanding debt as on September 30, 2021 was at ₹ 1,030 crore (entire term loan is from HDFC Ltd and is secured by a mortgage on NKP). However, the company is currently enjoying a principal repayment moratorium on the entire debt till FY23 or Phase V completion (only interest is being currently serviced for the entire loan on a monthly basis), post which the debt is proposed to be converted into an EMI repayment. **After the completion of Phase V, debt is expected to be increase to ₹ 1,200 crore. Also, cost of debt was reduced to 7.25% with effect from September 1, 2021. The company has also indicated towards restructuring of its debt given lower rate of interest currently. In turn, cost of debt is likely to reduce further**
- Cash position:** Cash balance at the end of Q2FY22 was at ₹ 88 crore. However, the company has utilised ₹ 72 crore for dividend purpose during October 2021. Thus, effective cash at the end of October 2021 was at ~₹ 18-20 crore
- Deposit from JP Morgan:** As per the agreement, the company is expected to receive ₹ 150 crore from JP Morgan as a deposit amount for licensing the entire area of 11,59,000 sq ft at Phase V of NKP. The amount is to be used for Phase V-related expenses and dividends
- Expansion:** The company is currently evaluating possibilities of any expansions/ investment opportunities. However, till then, the cash surplus is likely to get distributed among shareholders as dividends

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 34% CAGR to ₹ 496 crore in FY21-23E, led by incremental leasing revenues flow through from phase V. We maintain BUY rating on the stock with an NAV-based target price of ₹ 455/share (vs. ₹ 400/share, earlier). In our valuations, we conservatively consider a 9% cap rate and 14% discount rate. Furthermore, clarity over future growth plans as and when the company shares it, will be the other key catalyst, which will drive a rerating.

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
₹ crore	FY20	FY21	FY22E	FY23E
Net Sales	310.0	316.9	370.5	565.6
Other Income	1.0	2.5	3.0	4.0
Total revenues	311.0	319.4	373.5	569.6
Property Management Expense:	32.4	30.8	37.0	54.9
Employee Cost	5.3	4.9	5.7	6.8
Other Expenditure	41.4	44.0	50.0	62.8
Total Operating Expenditure	79.1	79.7	92.8	124.4
EBITDA	230.9	237.2	277.7	441.2
Interest	32.1	14.0	33.7	90.0
Depreciation	53.3	48.7	62.5	114.6
PBT	146.5	176.9	184.4	240.6
Tax	37.0	49.5	47.0	61.3
Reported PAT	109.5	127.4	137.4	179.2
Minority Interests	-	-	-	-
Profit for the company	109.5	127.4	137.4	179.2
EPS (₹)	12.1	14.1	15.2	19.9

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
₹ crore	FY20	FY21	FY22E	FY23E
PBT	146.5	176.9	184.4	240.6
Depreciation	62.5	50.7	62.6	114.7
Interest paid	32.1	14.0	33.7	90.0
Cash Flow before wc changes	240.1	239.2	277.7	441.2
Net Increase in Current Assets	4.8	4.0	(17.7)	(39.7)
Net Increase in Current Liabilities	104.5	32.4	4.1	148.7
Taxes Paid	(37.0)	(49.5)	(47.0)	(61.3)
Net cash flow from op. activities	312.4	226.1	217.1	488.9
Purchase of Fixed Assets	(401.1)	(207.0)	(209.8)	(10.0)
Others	1.0	2.5	3.0	4.0
Net cash flow from inv. activities	(400.1)	(204.5)	(206.8)	(6.0)
Proceeds from Borrowing	135.6	(10.6)	200.0	(130.0)
Interest Paid	(32.1)	(14.0)	(33.7)	(90.0)
Dividend Paid	(8.1)	(6.8)	(72.1)	(72.1)
Net cash flow from fin. activities	95.3	(31.4)	94.2	(292.1)
Net Cash flow	7.6	(9.8)	104.5	190.8
Opening Cash	5.1	12.7	2.8	107.4
Closing Cash	12.7	2.8	107.4	298.2

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
₹ crore	FY20	FY21	FY22E	FY23E
Equity Capital	90.1	90.1	90.1	90.1
Reserves & Surplus	363.7	484.3	549.6	656.8
Networth	453.8	574.4	639.7	746.9
Total Debt	989.0	978.4	1,178.4	1,048.4
Other non-current liabilities	257.1	223.0	204.8	273.1
Source of Funds	1,699.9	1,775.8	2,022.9	2,068.4
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	-	-
Total Fixed Assets	1,689.4	1,845.7	1,992.9	1,888.2
Other non-current assets	37.5	36.6	50.7	77.5
Inventories	-	-	-	-
Trade Receivables	3.9	1.9	2.2	3.4
Loans & Advances	2.2	2.2	2.6	3.9
Cash & Bank Balances	12.7	2.8	107.4	298.2
Other Current Assets	18.0	16.9	19.8	30.2
Total Current Assets	24.1	21.0	24.6	37.5
Trade Payable	8.6	7.0	8.2	12.6
Provisions	0.6	0.6	0.7	1.1
Other Current Liabilities	54.6	122.7	143.7	219.4
Total Current Liabilities	63.8	130.3	152.6	233.0
Net Current Assets	10.5	(69.9)	30.1	180.2
Application of Funds	1,699.9	1,775.8	2,022.9	2,068.4

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY20	FY21	FY22E	FY23E
Per Share Data				
Reported EPS	12.1	14.1	15.2	19.9
Cash EPS	18.1	19.5	22.2	32.6
BVPS	50.4	63.7	71.0	82.9
Operating Ratios				
EBITDA / Net Sales	74.5	74.8	75.0	78.0
PAT / Net Sales	35.3	40.2	37.1	31.7
Return Ratios				
RoE	24.1	22.2	21.5	24.0
RoCE	10.5	10.8	10.8	16.0
RoIC	24.0	29.8	11.2	18.4
Valuation Ratios				
EV / EBITDA	19.5	18.9	16.5	9.7
P/E	32.1	27.6	25.6	19.6
EV / Net Sales	14.5	14.2	12.4	7.5
Market Cap / Sales	11.3	11.1	9.5	6.2
Price to Book Value	7.7	6.1	5.5	4.7
Turnover Ratios				
Asset turnover	0.2	0.2	0.2	0.3
Gross Block Turnover	0.2	0.2	0.1	0.2
Solvency Ratios				
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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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