

Company Name: Nirlon Limited

Operational Highlights:

- Nirlon Limited was incorporated in 1958 and was a pioneer in the manufacturing of synthetic yarns and industrial rubber products in India. Since 2006, Nirlon has primarily been in the business of development and management of Real Estate. The development of the company's landmark project of Nirlon Knowledge Park began in phases from 2006, with all 5 phases of development completed.
- The Board of Directors of the Company, at its meeting held on March 25, 2022, has granted its approval for the Company to avail loan from The Hongkong and Shanghai Banking Corporation Limited (HSBC) for an aggregate sum of up to INR 1,230 Cr.
- The proceeds from the said loan will be used to repay the existing loan availed by the Company from HDFC Limited along with attendant pre-payment charges and other re-financing costs.
- The Company is opting to stay with the old tax regime at present. As a result of the same, in Q3-FY22, the Company has recognized tax expense on account of measurement of tax balances pertaining to earlier years and preceding quarters. The consequent impact of the same is that the PAT for 9M/Q3-FY22 not being comparable to the earlier corresponding periods.
- Nirlon has also capitalized Phase V on 15 December 2021. Phase V Depreciation and Interest are both charged to the P&L from 16 December 2021 and Revenue from Phase V is also included in the Income from 16 December 2021.
- The overall occupancy of NKP has increased to 94.5% in this quarter compared to 91.1% in the previous quarter.
- On 26 January 2022, the Company signed a Lease & License Agreement with JP Morgan Services India Pvt. Ltd. for approximately 1.16 Mn sq.ft. of chargeable area comprising the entire Phase V for a period of 10 years.
- License fee commencement date is 15 May 2022 after the contracted license fee-free period of 5 months.
- As of 31 December 2021, ~78,000 sq.ft. of area was vacant compared to 148,000 sq.ft as on 30 September 2021. Of this 78,000 sq.ft. of vacant area, the Company has licensed an additional area of ~13,000 sq.ft. in Q4-FY22.
- Nirlon took many measures and modified its processes, infrastructure, and facilities to provide the required health and safety measures at NKP and Nirlon House. This included a comprehensive vaccination drive at NKP.
- The Company has paid a dividend of INR 8 on 15 September 2021 and an interim dividend of INR 15 on 17 February 2022. This is in keeping with our policy of ensuring the maximum amount of surplus cash is regularly paid out to investors while ensuring a prudent level of liquidity is available for meeting contingencies.

Key Questions & Answers discussed during the Conference:

- **How many people can be accommodated in Phase V?** Phase V has a chargeable area of around 11.6L sq.ft. So taking a ratio of 1:100, around 11,000 people can be accommodated.
- **With a 10 years lease of phase V with JP Morgan, are there any escalations built-in into this lease?** Yes, every 3 years there is an escalation of about 15%.
- **What is the quantum of the lease of Phase V?** It's a 10 years license and they have an option to renew it for another 10 years. There is also a lock-in that is effective for about 6 years, maybe a little more.
- **At what rate is the Phase V rent out for?** It is rented out for INR 145 per sq.ft. with approximately 80% efficiency which is a carpet area of 80% of the chargeable area.
- **What is the length of the contract that the licensees sign up on and are the escalations clauses similar for all the licensees?** The length of the contract is between 5 to 10 years. Yes, the escalation clauses are similar for all of them.
- **What kind of services do the licensees get when you are leasing out these premises?** The licensees pay for their utilities like electricity, telephone, and other usages. We provide them with the chilled water HVAC system and we get reimbursed for that. There is a common area maintenance charge that is charged to the licensees for all the maintenance.
- **Does the property management expenses include the charges for the premises and a certain margin?** Yes, it includes the charges for the premises and a certain margin. The margin is about 15% and it changes every 3 years but not more than 15%, sometimes less depending on the circumstances. The increase in the property management expenses is done in consultation with our licensees. However, for the last two years we have kept it constant.
- **You have about INR 1,000 Cr debt taken from HDFC and you had a moratorium during the construction period, so what would be the interest every quarter in the coming year?** Yes, we did have a debt of INR 1,000 Cr and the moratorium was till June 2022 and after that, we were going to repay the loan by paying every month which would include the principal and interest which was supposed to be amortized over a period of 7 years. As of 25 March 2022, we are looking to change our lender to HSBC and refinance the debt of HDFC. The structure of the loan is basically a balloon repayment. It is a 10-year loan with interest-only for 5 years, then a small repayment and a balloon payment of approximately 75% at the end of 10 years period. The interest rate is a little bit lower than that of HDFC.

- **For FY22-23, since you don't have a lot of interest payments, would the income primarily be used for dividends, or are you looking for investing in other projects?** Yes, the focus is on paying a substantial part out as dividends. There is no significant work outside of the campus. We are not actively looking at acquiring other projects using our cash flows at this point. If anything comes our way that we feel is absolutely worthwhile, we believe we can find the necessary resources to take advantage of such an opportunity.
- **This was also related to a discussion in your last call converting the company into a REIT structure, have you had any further discussions on it?** The REIT structure continues to be looked at from our end. The issue with REIT is that there are conversions of various acts and regulations that become applicable if you are a listed company and REIT has a parallel set of regulations. They don't necessarily converge the way we would like them to converge to make that transition viable and that's why the discussion continues to go on. Just to emphasize it, we are not saying that we would do or not do a REIT but we are trying to see whether the process that we need to follow will lead to an enhancement for shareholders or not.
- **What is the vision of the majority of the shareholders? What does their plan say for the next 3-5 years? What do they want to do with the asset?** It's important to mention that we wouldn't want to answer for them as they are quite cautious in terms of what they put out simply because of their situation. But essentially we do know that when they bought the asset, they wanted the asset to be a long-term yield asset, a long-term dividend asset and that is now established.
- **The vacant area that you have at NKP, how is that looking over the next couple of quarters? Is it something that you think is going to rotate out quickly?** We are quite hopeful in that matter. Out of the 78,000 sq.ft. that we mentioned, 13,000 sq.ft. is in an advanced stage of discussion. Also, 78,000 sq.ft. includes our 10,000 sq.ft. of Nirlon House at Worli. So in terms of floors, we have just 1½ half floors left vacant in terms of possession of the entire campus.
- **On a monthly basis or a quarterly basis, what are the top two numbers that you look at?** The vacant area and the license renewals. We look at things like what is the rate that the licensees are likely to renew and what is the rate that they can sustain over the term of their license.
- **Could you explain why we have gone with such a loan structure in terms of fixed or non-repayment of principal for 10 years?** We had a lot of debate internally on this structure and we came to a conclusion that the level of debt that we have is relatively low and at that level of debt of INR 1,200 Cr, we have a reasonably good and conservative interest and debt service coverage ratio and it would allow more options for the company to have free cash flows and we could decide what we could do with those improved free cash flows without increasing any risks to the company as the debt would remain relatively low.

- **Since we have some unutilized FSI in the campus, how do we plan to utilize it? Is there any additional place in the campus or a different way to monetize the undeveloped FSI?** The easiest way to monetize the unutilized FSI is to demolish the existing structure and rebuild that particular planned area to a greater extent. However, we didn't actually build it on the campus, because the campus has already reached its capacity to function in an optimal and efficient way.
- **Can you tell me the demand and supply in the micro-market where you are operating?** After Covid-19, we have seen a change that the increase in the demand has reduced to a great extent but over the last quarter, we definitely see that the demand has started to come back to a relatively healthy level and inquiry for spaces in and around this area has increased. With regards to the supply, there is going to be a good amount in our micro market and approximately 2-3 Mn sq.ft. which we know is definitely going to be introduced in this micro-market in the next two to four years.
- **What is the opportunity at Nirlon House in Worli where we have a part ownership and what is the thought process about owning the complete property?** About Nirlon House, we roughly own about half the building but our ownership is an undivided share with 25% which is the Nirlon Foundation Trust in that building. We are looking at whether it would be appropriate to monetize the building or something else like the redevelopment of the building. At the moment the building is substantially rented at reasonable rates.
- **What is the change in the thought of the organization with our promoter GIC?** GIC has been there with the company since 2015-16. We have a very good understanding and a close working relationship with GIC. They had a clear goal to see that the NKP is fully developed and to make sure that it is a steady interest-earning asset.
- **What percentage of area have we been historically renewing versus getting from our new clients?** There have been very few instances where we haven't renewed with the existing licensees in our campus except for TCS which vacated after their term of 10 years. It is not common for someone to move out of NKP.

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