

Phase V to boost revenues significantly...

Nirlon's 9MFY21 (& Q3FY21) performance was fairly stable. Revenues in Q3FY21 grew 4.5% YoY to ₹ 80.1 crore. For 9MFY21, revenues grew 5% YoY at ₹ 227.8 crore, largely driven by rental renewal. Occupancy, which was at 97.5% was lower QoQ vs. 99.5% in Q2, as one tenant had vacated earlier than licence term. Nonetheless, the same is likely to be compensated as it will be largely leased again from March, 2021 onwards. EBITDA for 9MFY21 at ₹ 182.4 crore was up 6.2% YoY. PAT at ₹ 98.7 crore for 9MFY21 was up 23.2% YoY, also aided by lower interest, due to capitalisation.

Stable performance in 9MFY21

Nirlon currently has operational licensable area of ~1.9 msf across Phase I-IV at Nirlon Knowledge Park (NKP), of which, ~97.5% area is licensed out. It clocked lease revenues to the tune of ₹ 255.6 crore in FY20. The occupancy was lower QoQ vs. 99.5% in Q2, as one tenant had vacated earlier than licence term. Nonetheless, the same is likely to be compensated as Morgan Stanley has agreed to license an additional ~32,000 sq ft from March, 2021. 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 23% CAGR to ₹ 496 crore in FY20-23E.

Phase V revenues to begin from Q4FY22E

The company is currently developing Phase-V at NKP with ~1.16 msf licensable area, which is expected to become operational in Q4FY22E (~91% construction done). 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, as per the company. We note that the budgeted costs of phase V at ₹ 1229.1 crore, are to be funded through internal accruals of ₹ 578.3 crore, debt of ₹ 499.5 crore and deposits of ₹ 151.3 crore. With ₹ 384 crore debt drawn out of ₹ 988 crore capex spent so far, we expect debt to peak out by H1FY22E and decline thereafter as rental revenues kick in coupled with deposits.

Valuation & Outlook

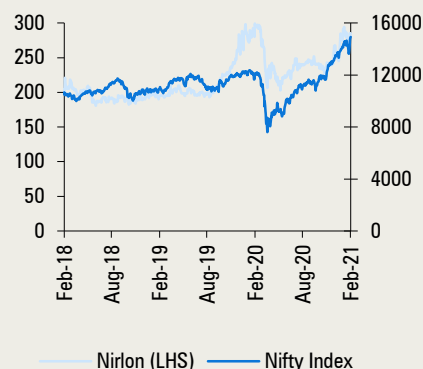
We like Nirlon given its quality Grade-A office assets backed by Reco Berry – an affiliate of GIC. It is also on the verge of ramping up licensable area by ~1.16 msf with construction of Phase-V at NKP in FY22E. Thus, we expect its lease revenues to grow at 23% CAGR to ₹ 496 crore in FY20-23E. We roll over our NAV to FY21E. We maintain **BUY** on the stock with a NAV-based target price of ₹ 355/share (vs. ₹ 300/share, earlier). 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.



Particulars

Particulars	Amount (₹ crore)
Market Capitalization	2,551.7
Total Debt (FY20)	989.0
Cash (FY20)	12.7
EV	3,528.1
52 week H/L (₹)	301/ 193
Equity capital	90.1
Face value (₹)	10.0

Price Performance



Key risk to our call

- Any exit by key tenants
- Delay in phase V expansion

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY19-21E)
Net Sales	298.7	310.0	323.3	387.9	574.1	22.8%
EBITDA	226.1	230.9	241.4	287.1	424.8	22.5%
EBITDA Margin(%)	75.7	74.5	74.6	74.0	74.0	
Net Profit	63.7	109.5	131.8	132.7	198.8	22.0%
EPS (₹)	7.1	12.1	14.6	14.7	22.1	
P/E(x)	40.1	23.3	19.4	19.2	12.8	
EV/EBITDA(x)	15.0	15.3	15.1	11.8	7.2	
RoE(%)	18.1	24.1	22.8	19.2	23.1	
RoCE(%)	12.4	10.5	10.3	11.7	15.7	

Financial Summary

Exhibit 1: Profit and loss statement (₹ crore)				
₹ crore	FY20	FY21E	FY22E	FY23E
Net Sales	310.0	323.3	387.9	574.1
Other Income	1.0	1.0	1.1	1.1
Total revenues	311.0	324.4	389.0	575.2
Property Management Expense:	32.4	34.0	42.7	63.1
Employee Cost	5.3	4.9	5.8	8.6
Other Expenditure	41.4	43.2	52.4	77.5
Total Operating Expenditure	79.1	82.0	100.9	149.3
EBITDA	230.9	241.4	287.1	424.8
Interest	32.1	14.4	40.0	42.0
Depreciation	53.3	51.1	70.0	117.2
PBT	146.5	176.9	178.1	266.8
Tax	37.0	45.1	45.4	68.0
Reported PAT	109.5	131.8	132.7	198.8
Minority Interests	-	-	-	-
Profit for the company	109.5	131.8	132.7	198.8
EPS (₹)	12.1	14.6	14.7	22.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement (₹ crore)				
₹ crore	FY20	FY21E	FY22E	FY23E
Profit before Tax	146.5	176.9	178.1	266.8
Depreciation	62.5	51.1	70.1	117.2
Interest paid	32.1	14.4	40.0	42.0
Cash Flow before wc changes	240.1	241.4	287.1	424.9
Net Increase in Current Assets	4.8	(7.8)	(13.9)	(40.0)
Net Increase in Current Liabilities	104.5	(82.5)	173.5	90.8
Net cash flow from op. activities	312.4	105.9	401.3	407.7
Purchase of Fixed Assets	(401.1)	(201.8)	(90.0)	(10.0)
(Purchase)/Sale of Investments	-	-	-	-
Net cash flow from inv. activities	(400.1)	(200.7)	(88.9)	(8.9)
Proceeds from Borrowing	135.6	115.0	(130.0)	(130.0)
Interest Paid	(32.1)	(14.4)	(40.0)	(42.0)
Dividend Paid	(8.1)	(8.1)	(19.9)	(29.8)
Net cash flow from fin. activities	95.3	92.5	(189.9)	(201.8)
Net Cash flow	7.6	(2.3)	122.5	197.0
Opening Cash	5.1	12.7	10.3	132.8
Closing Cash	12.7	10.3	132.8	329.8

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
₹ crore	FY20	FY21E	FY22E	FY23E
Equity Capital	90.1	90.1	90.1	90.1
Reserves & Surplus	363.7	487.3	600.1	769.1
Networth	453.8	577.5	690.3	859.2
Total Debt	989.0	1,104.0	974.0	844.0
Other non-current liabilities	257.1	171.8	194.4	259.6
Source of Funds	1,699.9	1,853.3	1,858.7	1,962.8
Gross Block	1,354.6	1,364.6	2,594.6	2,604.6
Less: Accumulated Dep	613.5	664.6	734.7	851.9
Net Block	741.2	700.1	1,860.0	1,752.7
Capital WIP	948.2	1,140.0	-	-
Total Fixed Assets	1,689.4	1,840.1	1,860.0	1,752.7
Other non-current assets	37.5	44.3	53.1	78.6
Inventories	-	-	-	-
Trade Receivables	3.9	4.1	4.9	7.3
Loans & Advances	2.2	2.3	2.8	4.1
Cash & Bank Balances	12.7	10.3	132.8	329.8
Other Current Assets	18.0	18.8	22.5	33.4
Total Current Assets	24.1	25.2	30.2	44.7
Trade Payable	8.6	9.0	10.8	16.0
Provisions	0.6	0.6	0.7	1.1
Other Current Liabilities	54.6	56.9	205.8	226.0
Total Current Liabilities	63.8	66.6	217.4	243.1
Net Current Assets	10.5	13.3	(1.3)	210.0
Application of Funds	1,699.9	1,853.3	1,858.7	1,962.8

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY20	FY21E	FY22E	FY23E
Per Share Data				
Reported EPS	12.1	14.6	14.7	22.1
Cash EPS	18.1	20.3	22.5	35.1
BVPS	50.4	64.1	76.6	95.3
Operating Ratios				
EBITDA / Net Sales	74.5	74.6	74.0	74.0
PAT / Net Sales	35.3	40.8	34.2	34.6
Return Ratios				
RoE	24.1	22.8	19.2	23.1
RoCE	10.5	10.3	11.7	15.7
RoIC	24.0	27.1	12.6	18.8
Valuation Ratios				
EV / EBITDA	15.3	15.1	11.8	7.2
P/E	23.3	19.4	19.2	12.8
EV / Net Sales	11.4	11.3	8.7	5.3
Market Cap / Sales	8.2	7.9	6.6	4.4
Price to Book Value	5.6	4.4	3.7	3.0
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	1.9	1.2	0.6
Current Ratio	0.4	0.4	0.1	0.2
Quick Ratio	0.4	0.4	0.1	0.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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