



**Nirlon Limited**

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**February 16, 2023**

**BSE Limited,**

The Corporate Relationship Dept.,

P.J. Towers,

Dalal Street,

**Mumbai - 400 001.**

**Security Code: 500307**

Dear Sir/ Madam,

**Sub:** Earnings Call Transcript

**Ref:** Participation in Investors'/ Analysts' conference call held on Thursday, February 9, 2023

We refer to our intimation dated January 31, 2023 informing the stock exchange of an earnings conference call on Thursday, February 9, 2023.

This is to inform you that the conference call was attended by Mr. Rahul V. Sagar, Chief Executive Officer & Executive Director, Mr. Kunal V. Sagar, Promoter & Non-Executive Director and Mr. Manish B. Parikh , Chief Financial Officer and Vice President (Finance) of the Company, and Mr. Ashish Bharadia, Vice President (Business Development and Investor Relations) of Nirlon Management Services Pvt. Ltd.

The transcript is attached herewith. The Transcript and the audio recording are available on the Company's website "[www.nirlonltd.com](http://www.nirlonltd.com)".

The interaction was based on a Q&A format, and the presentation for the aforesaid is available on the Company's website.

Kindly take the information on your record.

Thanking you,

Yours Faithfully,

**For Nirlon Limited**

A handwritten signature in blue ink, appearing to read 'Jasmin K. Bhavsar', is written over a faint, light blue circular stamp or watermark.

Jasmin K. Bhavsar

Company Secretary, Vice President (Legal) & Compliance Officer

**FCS 4178**

**Encl:a.a.**

**Nirlon Limited**  
**Q3-FY23 Earnings Conference Call**  
**February 09, 2023**

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**Moderator:** Ladies and gentlemen, Good day and welcome to the Q3 FY23 Conference Call of Nirlon Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir.

**Anuj Sonpal:** Thank you. Good evening everyone and a very welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of Nirlon Limited.

On behalf of the company, I would like to thank you all for participating in the company’s earnings call for the third quarter and 9 months ended of financial year 2023.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today’s earnings call maybe forward looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management’s belief as well as assumptions made and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today’s earnings call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review.

Now let me introduce you to the management participating with us in today’s earnings call before I hand it over to them for opening remarks. We have with us:

- Mr. Rahul Sagar – Chief Executive Officer and Executive Director,
- Mr. Kunal Sagar – Promoter and Non-Executive Director,
- Mr. Manish Parikh – Chief Financial Officer and VP (Finance),
- Mr. Jasmin Bhavsar – Company Secretary and Vice President (Legal) and Compliance Officer,
- Mr. Ashish Bharadia – Vice President of Business Development and Investor Relations at Nirlon Management Services Private Limited.

Without any further delay, I now request Mr. Rahul V Sagar to start with his opening remarks.  
Thank you and over to you, Sir.

**Kunal Sagar:**

Thank you Anuj. Good evening and welcome to our earnings conference call for the third quarter and 9 months ended for the financial year 2023. We hope all of you are safe and well. Let us take you through the financial performance of the company. For the third quarter of the financial year 2023 the company reported a total income of Rs. 144 crores, an increase of approximately 55 crores on a year-on-year basis. EBITDA stood at Rs. 119 crores which grew by 59% on a year-on-year basis. This represents an EBITDA margin of 82.19% which improved by 200 basis points on a year-on-year basis. Profit after tax stood at Rs. 54 crores for the third quarter. Profit margin was 37.08%.

For the 9 months ending 31st December 22 the company reported a total income of Rs. 427 crore witnessing a growth of approximately 71% on year-on-year basis. EBITDA was Rs. 344 crores representing an EBITDA margin of 80.57%, which improved by 562 basis points on a year-on-year basis. Profit after tax was Rs. 108 crores, a growth of approximately 47% on year-on-year basis. PAT margin stood at 25.33%.

This revenue and profitability growth can be largely attributed to phase V becoming operational and the resulting increase in revenues and the economies of scale resulting thereof. The revenues for the last two quarters can be considered as representative of stabilized performance going forward. We estimate that the operations at NKP have now largely stabilized. Hence, the financial performance in Quarter 3 may broadly be estimated as representative of this stabilization of operations. However, there will always be the potential for variations in some quarters mainly due to fluctuations in occupancies, especially during pre-leasing. We continue to focus on improving operating efficiencies.

On the operational front, the average occupancy rate for the company stood at 97.6% for the third quarter. Global payments renewed approximately 9,000 square feet due for renewal in financial year 23. LRN renewed approximately 15,000 square feet due for renewal in financial year 2024. Our food and beverage outlets, which are amenities or support services for the Park occupants, renewed approximately 6,600 square feet. Barclays vacated approximately 23,000 square feet on expiry of their license period. As on 31st December 2022 approximately 83,000 square feet area was vacant. Of this vacant space, MUFG has licensed approximately 23,000 square feet and Protium Finance has licensed approximately 34,000 square feet in Q4 of financial year 23. With this, we conclude our presentation and open the floor to your questions.

**Moderator:**

Thank you. We will now begin the question-and-answer session. The first question is from the line of Ashok Jain from Ayush Capital. Please go ahead.

**Ashok Jain:**

Sir, my first question is regarding the interest rate we are paying. In the last conference call you had informed that our interest rate on HSBC loan has increased from 6.1% to 8.7% effective 1st

November, 2022. Some GIC Group companies has renegotiated interest rate to 7.5% only. Going forward, do we stand any chance to lower our interest rate downwards from this 8.7%?

**Kunal Sagar:** As you mentioned our interest rate was 8.75% on our term loan at the end of the quarter as on 31st December 2022. The net rate has gone up marginally to 8.8% from the first of February. Our interest rate on the term loan is linked to 3 months T-bills, and so the rate will depend on how the T-bill moves over the coming quarters. So, it has a direct bearing on what the overall interest rate regime or environment is going to look like. Our own estimate is that it will probably get somewhat higher before it starts going lower. That is an estimate or an assumption that we are making based on the information that we have today. Since it is linked to T-bills, should there be change in environment, in a lower interest rate environment, the interest rate would go down at that time.

**Ashok Jain:** The second question is regarding the media report about SEBI permitting listing of micro REITs that is a single property REIT with assets above Rs. 500 crore. There was an article during December second week in the media. Given that we continue to be in old tax regime to maintain flexibility, can you please share your views because we had last two months to discuss in case we had the opportunity to discuss with GIC that is it possible for Nirlon to convert itself into a micro REIT because in case the SEBI allows this permission?

**Kunal Sagar:** Just to be clear I think your question is on the media report that appeared with reference to small REITs or micro REITs. We checked that to see what the position actually was and what we understand is that there is no such proposal is under any kind of active or genuine discussion with the concerned regulators. It is not really there in any shape of form that is likely to fructify or move forward just now; that is what we found. So, it does appear it is largely a media report not really based on anything that is in process.

**Ashok Jain:** In case it happens because the government feels that they want to promote the REIT, in case it happens are you open to this or its not for us?

**Kunal Sagar:** Mr. Jain if there a regulation of that sort that comes about we will of course take a look at it in much detail to understand what it is and then do accordingly at that point. But of course we will have to understand and see what the regulation says or does not say.

**Moderator:** Thank you. We have the next question is from the line of Dilip Jain who is an Individual Investor. Please go ahead.

**Dilip Jain:** Sir my question was in the post COVID world many IT companies seem to be more inclined to continue with the hybrid model of working. Going forward if this trend were to become a norm in the future, what will be its impact on the office leasing sector? Sir we would be obliged if you share your views on the same?

**Rahul Sagar:** Firstly, we are not entirely dependent on the IT companies so to speak. We of course have IT/ITES and so we are not contingent only on one particular sector. The sector which we are currently more exposed to in IT/ITES are the multinational and the international banks which make up a large part of our occupants and licensees. I think the view of a lot of the MNC companies and the international companies is that even though it may be hybrid to some extent, they are very keen to get 100% of the people back into office. They may not all come in on the same day, but for example out of 1,000 employees they want all 1,000 employees back in the office, even if it may not be all on the same day. So, we are seeing a physical occupancy in the campus of about 60%, 65%, which sometime goes up to 70%. So, of course this is something that we look at very carefully and something that can be concerning, but I think the trend is fairly positive and the sector where we are really exposed to a large extent has placed a lot of emphasis on going back to work as well not just work from home; going back to work either full time or in a hybrid model. We continue to watch this very carefully.

**Dilip Jain:** Sir my last question - our total dividend payout is almost or greater than 100% of our annual net profit, and also we continue to pay tax under the old tax regime. The decision to continue in the old tax regime is to maintain future restructuring flexibility. This decision is reducing our cash flows and consequently our ability to pay higher dividends to our stakeholders including minority shareholders. Sir minority shareholders like us will benefit only if Nirlon stays listed just wanted to know your thoughts if this scenario is possible?

**Kunal Sagar:** What is the actual question that you have.

**Dilip Jain:** Do you want me to repeat.

**Kunal Sagar:** Just the last bit so we understand what your query is. We heard you on your earlier part and we understood that. What would you like us to answer with reference to that observation?

**Dilip Jain:** Sir, my question is we are minority shareholders and we benefit the most in the case Nirlon stays listed, so just wanted to know your thoughts if the possibility of Nirlon staying listed is still active?

**Kunal Sagar:** At the moment we are listed. As to whether being listed or not listed is in the interest of minority shareholders, I do not think that is a question that we can answer on an earnings call. I think that is a debate for a different forum as it were. So, we would not really want to answer that part of it. At the moment we are listed. As you know, we have had earlier discussions with various shareholders and various discussions about delisting the company and about that being in favor of minority shareholders. I think that is not something that can be debated on this call if you do not mind. The company for now is very much listed, and as we said oftentimes, our idea is to continue to pay a consistent and stable recurring, sustainable dividend. That is why we mentioned in our opening remarks that we feel that we are achieving the kind of stability that we have aspired to, and the kind of EPS, the kind of earnings after tax, the kind of EBITDA

that we have aspired to, and on that basis we believe that we will be able to sustain the dividend that we have started paying from the last financial year going forward.

**Moderator:** Thank you. We have the next question from the line of Lakshay Jain an Investor. Please go ahead.

**Lakshay Jain:** I just have one question. Sir, in the last concall you have mentioned that the shift from WDV to SLM is just for accounting purpose and that there will not be any change or any increment in the tax liability. The finance cost has increased by Rs. 5 crores. As interest paying tax deductible there should have been a decrease in tax liability to the extent of  $5 \times 35\%$  that is Rs. 1.75 crore instead there was a increase of Rs. 6.5 crore. Just wanted to understand this?

**Manish B Parikh:** See as far as depreciation is concerned, we have now moved from WDV to SLM method and the depreciation will have no impact on the taxation because the tax working is independent and it has got its own method of calculating the depreciation under the Income tax, so that has not changed.

**Lakshay Jain:** But there was still an increase in tax liability by Rs. 6.5 crore?

**Manish B Parikh:** If the profit before tax increases, the tax will also increase. Profit during the current quarter has increased from Rs. 58 crore to Rs.78 crores, correspondingly MAT or income tax liability will also go up from Rs. 18 crore to Rs. 24 crores.

**Lakshay Jain:** But this increases was mainly because of the shift from WDV to SLM right?

**Manish B Parikh:** No. That is why I have mentioned earlier that tax computation has got no implication for change from WDV to SLM.

**Ashish Bharadia:** To clarify your point, the actual tax outgo will be based on the income tax calculations which uses its own independent method. As far as provisioning in the books go, we have to provide for DTA and DTL also, because in some years do you see a MAT which gets credited later. So, in the books the provisioning happens as per the book profit.

**Lakshay Jain:** So that is not the actual tax which we will be paying that Rs. 25 crore?

**Ashish Bharadia:** That is not the cash outflow. The cash outflow will be completely different which is done on the basis of tax calculation as per the income tax laws.

**Moderator:** Thank you. We have the next question from the line of Satyendra Singh from Eon Infotech Limited. Please go ahead.

**Satyendra Singh:** My first question is any progress on the REIT plans since the last update because it is still a work in progress for I think quite a few number of quarters. Any update that you have?

**Kunal Sagar:** Sorry did I hear your question right. You wanted an update on what you mentioned; is the REIT update what you want?

**Satyendra Singh:** Yes, any update on the REIT plans?

**Kunal Sagar:** Just to clarify, what we have been discussing is not specifically the plans for the REIT or not having REIT. We will be discussing what is the kind of structuring or restructuring that might be beneficial to shareholders going forward. One of the points raised by shareholders was could we do a REIT. So, the discussions in terms of what might be the best structure for the company going forward continues to progress. There is nothing again more specific whether it is A, B or C, but we do continue to progress on the discussions and the discussions are, as we had indicated, constructive and progressive in terms how one wants to go forward. There is nothing specific that we have concluded yet in our discussions that we are having with our major shareholders.

**Satyendra Singh:** Any timeframe that you have in mind by which some crystallization of views in terms of the right structure would emerge any visibility on that?

**Kunal Sagar:** I appreciate your question. We are working hard on that; we are working regularly on that and we are making progress on that. We will make sure that as soon as there is something specific we have we do come back to shareholders on that.

**Satyendra Singh:** And what is the physical occupancy that we reached now in our campus?

**Rahul Sagar:** The occupancy as on date is close to approximately 99% as on date. It was about 97 odd percent on December 31<sup>st</sup> after that we have made.....

**Satyendra Singh:** Sir I meant the physical occupancy of people back to work?

**Rahul Sagar:** So I just mentioned that on the previous question as well. We are at approximately 60% right now. Sometimes, it could be plus minus 10% around the 60%, but there are approximately 11,000 to 12,000 people every day which is approximately 60% of the pre JP Morgan occupancy. Once the JP Morgan fit out is done, of course then we have to reassess that. But right now it is 60% based on the first four phases.

**Kunal Sagar:** Also in this last quarter we have had days where the occupancy has reached at times pretty much close to pre COVID levels on odd days. So in general that trend has been increasing quite encouragingly. Would you agree with that?

**Rahul Sagar:** Yes.

**Satyendra Singh:** And sir any update on the Morgan Stanley vacations or plans? Is there any update on that and how do you plan to address should the challenge come up?



**Kunal Sagar:** We continue to monitor that very closely and to be in touch with Morgan Stanley at all times. As we said we have a very good equation with them. We know that they have an interest in moving to a building that is exclusively for them. They will be giving us more than adequate notice when they do that and they would also be moving in phases and not in one stroke. We have not received any intimation that is imminent or likely at this point, but we do remain in touch to make sure that we have maximum notice when that move is likely to happen, and also that we have the maximum time for the move so that both parties can make sure that they are reasonably comfortable once that move begins. So, it is not something that happens in one stroke. No intimation so far, no notice to that effect so far. However, as we know it is something that is going to happen at some time in the future, but we have no specific time frame on that as of now. So, still sometime to go before that.

**Satyendra Singh:** One final question : what is your view on outlook on rentals in this micro market over the next couple of years? What is the view based on your understanding in the case of the market?

**Rahul Sagar:** We do not really want to speculate, but we see that there is a steady trend and it is fairly stable with what one might call marginal increase so to speak. But we see that rents are stable and steady and any increase will be also fairly stable and steady in this regard. At this point we do not see anything drastic happening either up or down. Hopefully, the current stable trend that we think we are witnessing is going to continue.

**Kunal Sagar:** As you have seen, all our renewals for 22-23 we have completed. We have completed a significant amount of our renewals for 23-24 as well and we are in advanced discussions for others which are progressing. The trend has been steady and it is a trend that is reasonably steady on an upward trajectory. As Rahul said, there is nothing drastic that is happening in terms of major jumps upward or downwards, but it is consistent, and empirically something that we have seen is the that trend is in the right direction as far as we are concerned.

**Moderator:** Thank you. We have the next question from the line of Ashok Jain from Ayush Capital. Please go ahead.

**Ashok Jain:** Sir this one question is on depreciation : for the current first half we have provided depreciation as a WDV method and for the second half we are going for a straight-line method. Sir for the whole year do we have to write back this first half extra extra provision or we need to stay like same only as per Income Tax Law?

**Kunal Sagar:** The WDV method is effective from 1st October 22. So, the SLM method will remain and the numbers associated with the SLM method will remain unchanged for the first 6 months of the year.

**Moderator:** Thank you. As there are no further questions I would now like to hand it over to the management for closing comments.

**Kunal Sagar:** Thank you very much. As always, we appreciate the interest, the time and the questions that are asked, and do be in touch with us if there are any further clarifications that we can provide on any aspect of our operations. Thank you again.

**Moderator:** Thank you. On behalf of Nirlon Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.