

NESCO

10 February, 2023

Reuters: NSEN.NS; Bloomberg: NSE IN

BEC occupancy recovers to pre-covid level; capex on the cards

NESCO reported 3QFY23 revenue of Rs1,428mn, flat QoQ and up by 53% YoY, missing our estimates. NESCO IT Park's 3QFY23 revenue stood at Rs776mn, up 13.9% YoY and 6.3% QoQ. Overall occupancy in Tower 4 (total leasable area at ~1.2mn sqft) stood at 97% in 3QFY23. Tower 4 is expected to be fully leased out in 4QFY23. Occupancy in Tower 3 stood at 91% in 3QFY23 and it is expected to be fully leased out in 1HFY24. With the MCGM completely vacating the exhibition space, the entire 0.66mn sqft is now fully leased out, which helped the company's occupancy in BEC to recover to pre-covid level i.e. ~40%. The regulatory approval for Tower 2 has been delayed and is expected in 1HFY24, post which its construction will require 4.5 years. The company also plans to add ~0.15mn sqft of new exhibition space, for which approval is expected in 4QFY23. Capex for the planned exhibition space and Tower 2 will be ~Rs22,250mn. Tower 2 building will be for multipurpose usage (2mn sqft for office leasing area while 0.5mn sqft will be used for the construction of a 300-keys 4-star hotel). We have maintained our BUY rating on NESCO with a target price (TP) of Rs758 (Exhibit 1).

Consolidated revenue increases by 53% YoY and remains flat QoQ at Rs1,428mn in 3QFY23: NESCO reported 3QFY23 revenue of Rs1,428mn, up 53% YoY but flat QoQ.

The IT Park segment's revenue stood at Rs776mn, up 13.9% YoY and 6.3% QoQ. Tower 4 and Tower 3 occupancy (total leasable area at ~1.87mn sqft) stood at 97% and 91%, respectively in 3QFY23. The average monthly rent for Tower 3 and Tower 4 stood at Rs152/sqft and Rs155/sqft, respectively.

There has been a delay in receiving regulatory approvals for Tower 2. The management expects to receive approvals in 1HFY24, post which 4.5 years will require for its construction. The leasable area for Tower 2 will be ~2mn sqft and will be for multipurpose usage i.e. office and 4-star hotel with ~300 keys. Capex for the same will be Rs21,000mn, which is most likely to be funded through internal accruals.

BUY

Sector: Real Estate

CMP: Rs589

Target Price: Rs758

Upside: 29%

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Key Data

Current Shares O/S (mn)	70.5
Mkt Cap (Rsbn/US\$m)	41.5/502.7
52 Wk H / L (Rs)	686/501
Daily Vol. (3M NSE Avg.)	104,252

Price Performance (%)

	1 M	6 M	1 Yr
NESCO	(3.2)	2.1	4.1
Nifty Index	(0.1)	2.0	1.6

Source: Bloomberg

Quarterly Financials

Y/E Mar (Rs mn)	3QFY23	2QFY23	QoQ (%)	3QFY22	YoY (%)	3QFY23E	Variance (%)	9MFY23	9MFY22	YTD (% changes)
Net Sales	1,428	1,429	0.0%	934	53.0%	1,517	-5.8%	3,888	2,463	57.8%
Cost of Good sold	(89)	(78)	13.9%	(79)	12.1%	(121)	-26.6%	(235)	(183)	28.3%
change in inventories	(7)	12	-155.1%	(7)	-5.5%	12	-156.2%	14	3	301.1%
employee benefit expenses	(53)	(42)	25.1%	(41)	26.9%	(43)	21.5%	(137)	(104)	31.8%
Other expense	(462)	(310)	48.9%	(197)	134.8%	(316)	46.0%	(1,036)	(615)	68.5%
EBITDA	819	1,011	-19.0%	609	34.3%	1,048	-21.9%	2,494	1,565	59.3%
EBITDAM (%)	57.3%	70.7%	-13.4%	65.3%	-8.0%	69.1%	-11.8%	64.1%	63.5%	0.6%
Depreciation and amortization	(83)	(46)	79.6%	(67)	22.4%	(76)	8.7%	(236)	(203)	15.8%
EBIT	736	934	-21.2%	542	35.8%	972	-24.3%	2,258	1,361	65.8%
EBITM (%)	52%	65%	-13%	58%	-7%	64.1%	-12.6%	58.1%	55.3%	2.8%
Other income	194	156	24.1%	96.4	100.8%	158	22.6%	428	330	29.5%
Interest expenses	(28)	(46)	-38.8%	(25)	13.7%	(46)	-38.9%	(106)	(67)	58.5%
Profit before tax	901	1,044	-13.7%	613	46.9%	1,084	-16.9%	2,579	1,625	58.8%
Tax expense	(201)	(225)	-10.9%	(120)	66.6%	(271)	-25.9%	(523)	(268)	94.8%
Effective tax rate (%)	21.6%	21.6%	na	19.6%	na	25.0%	na	20.3%	16.5%	na
PAT	701	819	-14.4%	493	42.1%	813	-13.8%	2,057	1,357	51.6%
NPM (%)	49.1%	57.3%	-8.2%	52.81%	-3.7%	53.6%	-4.5%	52.9%	55.1%	-2.2%

Source: Company, Nirmal Bang Institutional Equities Research

BEC revenue declines by 28.4% QoQ to Rs380mn: Revenue from the BEC segment declined by 28.4% QoQ to Rs380mn in 3QFY23. The QoQ decline was mostly due to some of the large-sized exhibitions being held in 2QFY23 whereas the company witnessed small to mid size exhibitions in 3QFY23. However, the management stated that recovery is expected in 4QFY23 given the traction witnessed in exhibitions on the back of the festive season.

The occupancy recovered to 40%, in line with pre-covid level. The average rental rate stood at Rs26/sqft/day for the exhibition period and Rs14/sqft/day for the fit-outs and dismantling period.

Further, the management clarified that it plans to add ~0.15mn sqft (Hall 6) additional exhibition space in the next one year and approval for the same is expected in 4QFY23. The company is likely to incur a capex of Rs1,250mn towards the new Hall 6. Post completion of this construction, the company will upgrade its existing exhibition space (~0.60mn sqft leasable area space) and consequently occupancy of BEC will likely drop to ~30% from the current level of 40% over the next two years.

Indabrador revenue increases by 72.9% QoQ but declines by 15.6% YoY to Rs135mn in 3QFY23: The company's Indabrador segment reported revenue of Rs135mn in 3QFY23, down by 15.6% YoY but up by 72.9% QoQ. The QoQ increase was mainly due to a healthy order book and increased capacity for Abrasives.

NESCO Food segment sales rise by 53.2% QoQ to Rs137mn: NESCO's Food segment revenue increased by 53.2% QoQ to Rs137mn. The QoQ increase was driven by higher footfalls amid a strong pick-up in exhibitions and corporate events, coupled with the increase in footfalls in the IT Park as the 'back to office' trend resumed in a phased manner. Footfalls in the IT Park are expected to improve further going forward as the 'back to office' trend gains traction.

There is huge demand for F&B on the back of pick-up in exhibitions and improvement of footfalls in the IT Park. The company has built one food court and two restaurants, which has a built up area of ~0.05mn sqft in Tower 4 in 3QFY23. It has started: (a) outdoor catering services for wedding, corporates and events. Revenue from the newly commissioned restaurants and food court will commence from 4QFY23. Also, NESCO intends to be a social gathering hub and is targeting revenue from the Food business at ~Rs700mn in FY24.

EBITDA margin contracts by 1,340bps QoQ and 800bps YoY to 57.3% in 3QFY23: NESCO's EBITDA margin contracted by 1340bps QoQ to 57.3% in 3QFY23 due to: (1) Increase in input costs by 13.9% QoQ (2) Increase in employee cost by 25.1% QoQ as the company recruited staff for its newly opened restaurants and food court and (3) Increase in other expenses by 48.9% QoQ as the company has demolished one of the factory sheds to build new exhibition Hall 6 (with parking space for 450 cars in the basement). This resulted in net carrying expenses of Rs150mn in 3QFY23, but the cost is one-off in nature.

Other highlights: The net cash position stood at Rs1,050mn in 3QFY23.

Maintain BUY with TP of Rs758: Our TP of Rs758 has been derived using the SOTP method (see Exhibit 1) and shows an upside of 29% from CMP.

Exhibit 1: SOTP valuation method

Segments	Valuation Metrics	NAV FY24 (Rs mn)	NAV FY25 (Rs mn)	Proportion (FY24)(%)	Proportion (FY25)(%)
NESCO IT Park	NAV	30,897	33,496	59.4%	61.2%
BEC	NAV	17,076	17,801	32.8%	32.5%
NESCO Foods	DCF	416	691	0.8%	1.3%
Indabrator	DCF	777	777	1.5%	1.4%
Total		49,167	52,764	94.4%	96.4%
Investments + Cash		2,891	1,967	5.6%	3.6%
Current + Future Value + Investments		52,058	54,731	100.0%	100.0%
Number of Shares (in mn)		70	70		
NAV Per share (in Rs)		739	777		
Target price (average of NAV/share of FY24 and FY25) in Rs.			758		

Source: Company, Nirmal Bang Institutional Equities Research

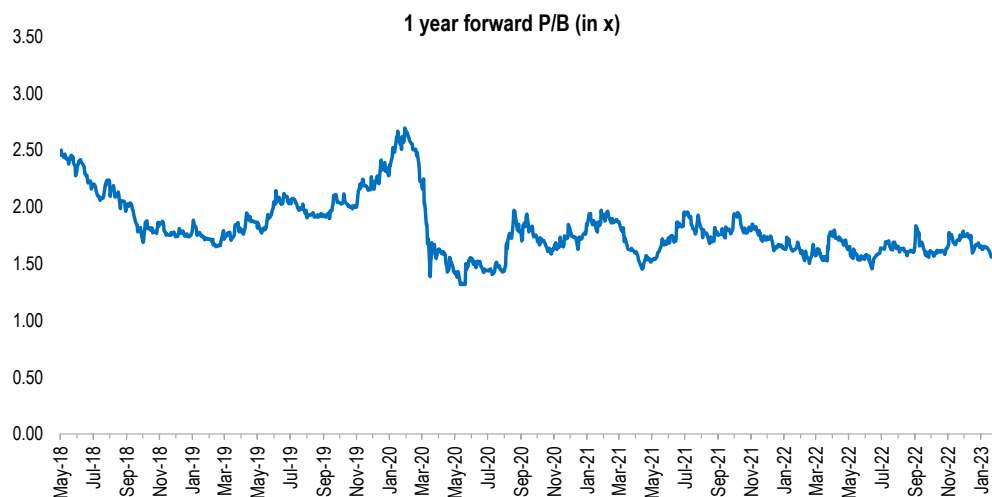
Exhibit 2: Quarterly segment-wise revenue and EBIT performance:

Segment Wise Revenues (Rs in mn)	3QFY23	2QFY23	QoQ (changes)	3QFY22	YoY (changes)
Nesco IT Park	776	731	6.3%	682	13.9%
Bombay Exhibition Centre	380	531	-28.4%	76	400.1%
Indabrator	135	78	72.9%	160	-15.6%
Nesco Foods	137	89	53.2%	16	777.1%
Total	1,428	1,429	0.0%	934	53.0%

Segment Wise EBIT (Rs in mn)	3QFY23	2QFY23	QoQ (changes)	3QFY22	YoY (changes)
Nesco IT Park	646	588	9.8%	563	14.7%
Bombay Exhibition Centre	122	418	-70.8%	40	202.2%
Indabrator	26	-12	Na	17	58.0%
Nesco Foods	14	3	434.1%	-13	na
Total	808	997	-18.9%	607	33.2%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: 1-Year Forward P/B (in x)



Source: Company, Nirmal Bang Institutional Equities Research

Consolidated financials

Exhibit 4: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	2,911	3,374	4,658	5,573	6,087
Growth YoY (%)	(32.6)	15.9	38.0	19.7	9.2
COGS	155	253	249	298	292
Operating Costs	175	526	742	838	897
Other expenses	724	405	618	765	846
EBITDA	1,857	2,190	3,048	3,673	4,052
EBITDA growth (%)	(33.3)	17.9	39.2	20.5	10.3
EBITDA margin (%)	63.8	64.9	65.5	65.9	66.6
Depreciation	257	283	261	262	264
EBIT	1,599	1,907	2,788	3,411	3,788
EBIT (%)	54.9	56.5	59.9	61.2	62.2
Interest expense	82	92	82	82	82
Other income	646	450	712	748	785
Earnings before tax	2,163	2,265	3,418	4,076	4,491
Tax- total	439	373	860	1,026	1,123
Rate of tax (%)	20.3	16.5	25.2	25.2	25.0
Net profit	1,725	1,892	2,558	3,050	3,368
% growth	(26.3)	9.7	35.2	19.3	10.4
EPS (FD)	24.5	26.9	36.3	43.3	47.8
% growth	(26.3)	9.7	35.2	19.3	10.4
Net DPS	3.00	2.42	3.27	3.90	4.30
Net Payout ratio (%)	12.3	9.0	9.0	9.0	9.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Profit after Tax	1,725	1,892	2,558	3,050	3,368
Depreciation	257	283	261	262	264
Finance costs	82	92	82	82	82
Other Income	(646)	(450)	(712)	(748)	(785)
Working capital changes	(63)	(135)	43	158	(426)
Operating Cash Flow	1,355	1,739	2,254	2,804	2,502
Capital Expenditure	(406)	(4,050)	(4,827)	(4,827)	(4,827)
Net Cash After Capex	949	(2,311)	(2,573)	(2,023)	(2,325)
(Purchase)/Sales of Investment	(732)	6,581	212	1,248	1,185
Proceeds/Repayment of borrowings	-	-	-	-	1,000
Finance costs	(82)	(92)	(82)	(82)	(82)
Dividend and dividend distribution tax	(211)	(170)	(230)	(275)	(303)
Other	336	(8,274)	4,236	(825)	(734)
Cash flow from Financing	42	(8,536)	3,924	(1,182)	(119)
Total Cash Generation	259	(4,266)	1,563	(1,957)	(1,259)
Opening Cash Balance	134	92	95	2,052	921
Closing Cash & Bank Balance	92	95	2,052	921	397

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	141	141	141	141	141
Reserves and surplus	15,151	16,836	19,418	22,194	25,259
Net worth	15,292	16,977	19,559	22,335	25,400
Loans	-	-	-	-	1,000
Other Financial Liabilities	1,056	1,275	1,287	1,300	1,313
Provisions	54	55	68	73	-
Deferred Tax Liability	359	314	314	314	314
Other Non- Current Liability	231	331	261	279	297
Total capital employed	16,992	18,951	21,489	24,301	28,324
Property, Plant and Equipment	8,097	15,775	15,943	20,507	25,071
Investments	-	-	-	-	-
Loans	44	139	44	44	44
Other Non-Current Assets	1,103	952	952	952	952
Total Non-Current Assets	9,245	16,866	16,939	21,504	26,067
Trade Payables	106	89	157	181	186
Other Financial Liabilities	568	273	289	389	-
Other current liabilities	549	396	415	436	458
Provisions (Current)	4	3	3	3	4
Total Current Liabilities	1,226	761	865	1,009	648
Inventories	74	75	118	142	140
Investments	8,100	1,970	2,470	1,970	1,570
Trade receivables	296	186	204	244	267
Cash and Bank Balance	92	95	2,052	921	397
Current Tax Assets (Net)	-	-	-	-	-
Other Current Assets	411	520	520	520	520
Total Current Assets	8,974	2,846	5,364	3,797	2,894
Net Current Assets	7,747	2,086	4,550	2,797	2,257
Total Capital Employed	16,992	18,952	21,489	24,301	28,324

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

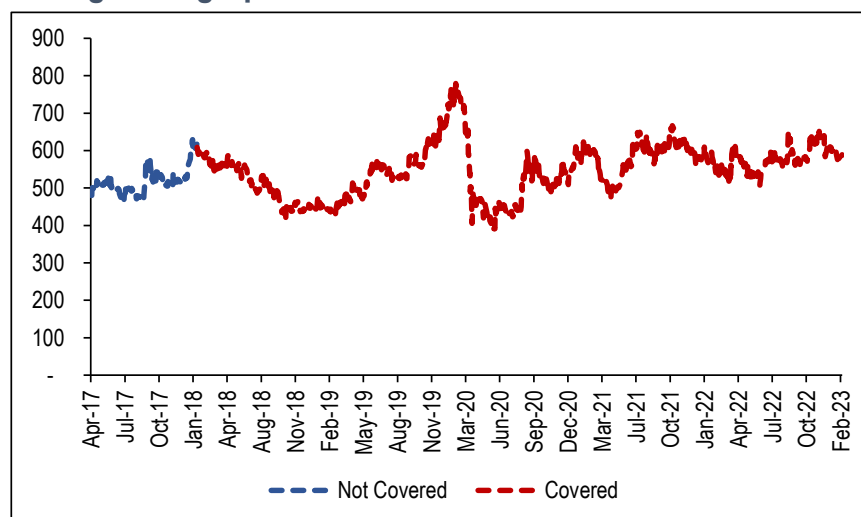
Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Profitability and return ratios					
EBITDA margin (%)	63.8	64.9	65.5	65.9	66.6
EBIT margin (%)	54.9	56.5	59.9	61.2	62.2
Net profit margin (%)	59.2	56.1	54.9	54.7	55.3
ROE(%)	11.3	11.1	13.1	13.7	13.3
ROCE (%)	9.4	10.1	13.0	14.0	13.4
Working capital and liquidity ratios					
Receivables (days)	37	16	16	16	16
Inventory (days)	159	159	159	159	159
Payables (days)	249	250	220	220	220
Current ratio (x)	7.3	3.7	6.6	3.8	4.5
Valuation ratios					
EV/sales (x)	15.4	13.3	9.7	8.1	7.4
EV/EBITDA (x)	24.2	20.5	14.8	12.2	11.1
P/E (x)	26.1	23.8	17.6	14.8	13.4
P/BV (x)	2.9	2.7	2.3	2.0	1.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
30 January 2018	Buy	613	794
14 February 2018	Buy	595	794
18 May 2018	Buy	560	794
9 August 2018	Buy	502	768
14 November 2018	Buy	461	764
15 February 2019	Buy	442	764
27 May 2019	Buy	485	764
29 July 2019	Buy	540	782
7 August 2019	Buy	537	782
13 November 2019	Buy	605	937
16 January 2020	Buy	717	937
10 February 2020	Buy	770	937
17 March 2020	Buy	538	937
24 March 2020	Buy	404	931
12 May 2020	Buy	413	769
20 May 2020	Buy	393	769
21 May 2020	Buy	395	769
17 August 2020	Buy	518	769
23 September 2020	Buy	556	759
13 November 2020	Buy	510	759
7 January 2021	Buy	575	808
14 February 2021	Buy	615	808
19 March 2021	Buy	543	808
31 May 2021	Buy	559	774
12 August 2021	Buy	603	774
08 October 2021	Buy	660	831
16 November 2021	Buy	621	831
03 February 2022	Buy	595	831
08 April 2022	Buy	596	873
26 May 2022	Buy	550	873
09 August 2022	Buy	575	873
19 September 2022	Buy	675	891
13 November 2022	Buy	623	758
10 February 2023	Buy	589	758

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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