

NESCO LTD



BSE : 505355 NSE: NESCO | CMP: 703 | RATINGS: HOLD

52 Week High/Low : 748/505 STOCK PE: 15.8 x MARKET CAP: INR 4953 Cr

Key Metrics

Return on Equity (ROE): 16.7%
Return on Capital Employed : 21.8%
Dividend Yield : 0.65%
Price to Book Value (P/BV): 2.51
5 Year Compounded Profit Growth: 12%
Cash conversion cycle: -12 days
Promoter Holding : 68.54%
PEG: 1.36
Return on Assets 12m : 14.47%
Price to Free cashflow : 40.04
Debt to Equity :0

Financials

LAST 3 YEARS PERFORMANCE (on a consolidated basis)

Particulars (INR Cr)	Mar-21	Mar-22	Mar-23
Sales	291	337	546
Expenses	105	117	179
Operating Profit	186	220	367
OPM %	64%	65%	67%
Other Income	65	44	45
Interest	8	9	12
Depreciation	26	28	33
Profit before tax	216	226	367
Tax %	20%	16%	21%
Net Profit	172	189	291
Net Profit%	59%	56%	53%
EPS in Rs	24.48	26.85	41.25
Dividend Payout %	12%	11%	11%

Q-o-Q PERFORMANCE (in INR Cr)
(on a consolidated basis)

Particulars (INR Cr)	Sep-22	Dec-22	Mar-23	Jun-23
Sales	143	143	157	137
Expenses	42	61	58	51
Operating Profit	101	82	99	86
OPM %	71%	57%	63%	63%
Other Income	16	19	20	25
Interest	5	3	2	3
Depreciation	8	8	9	14
Profit before tax	104	90	109	94
Tax %	22%	22%	22%	19%
Net Profit	82	70	85	76
Net Profit %	57.3%	49.0%	54.1%	55.5%
EPS in Rs	11.62	9.95	12.06	10.8

Balance Sheet (INR Cr) (on a consolidated basis)

Particulars	Mar-21	Mar-22	Mar-23
Share Capital	14	14	14
Reserves	1,515	1,684	1,950
Borrowings	0	1	0
Other Liabilities	293	273	298
Total Liabilities	1,822	1,972	2,263
Fixed Assets	759	846	804
CWIP	51	82	86
Investments	810	846	1,161
Other Assets	202	197	212
Total Assets	1,822	1,972	2,263

About the company

NESCO (hereinafter referred to as the “company”) is engaged in providing facilities/ infrastructure for exhibitions, MICE (Meetings, Incentives, Conferences & Events), real estate and central kitchen services. The company has 60k square meters of space for exhibitions with an annual footfall of more than 20 million visitors. The company owns several exhibition, conference and celebration halls across different parts of Mumbai. The Bombay Exhibition Center has state-of-the-art facilities to manage a wide spectrum of events. The company has also invested in building IT parks with latest facilities for leasing out to corporates.

Stock Price trend versus S&P BSE Sensex- last 3 years

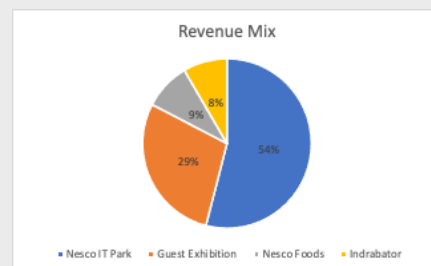


Over the past 3 years, stock price for NESCO has been range-bound and has been oscillating between 500 and 700. (Beta -0.51)

Product Segments/ Revenue Mix

The company has following key product segments:

- Nesco IT Park:** The property spread across several million square meters accommodates some of the top multinationals such as HSBC, KPMG, PwC, BlackRock, etc. The company has also inaugurated new restaurants such as Foo, Smoke House Deli, etc. in the campus. The company derived INR 295 crores (~54% of the FY23 revenue) from this segment.
- Guest Exhibition & Events:** Guest exhibition contributed INR 149 crores (27% of FY23 revenue) whereas events contributed INR 6 crores (~1% of the total revenue)
- Nesco Foods:** This segment focuses on outdoor catering for events, meetings, weddings, etc. Revenue from the foods segment was INR 48 crores.
- Indrabator:** Under this segment, the company offers shot-blasting machines, Air Pollution control systems, painting systems etc. Revenue from this segment was INR 46 crores



Source : Company annual report FY23

SWOT Analysis

Strengths:

1. Strong demand for its exhibition centres can be confirmed from the fact that immediately after COVID restrictions were lifted off, the company reached pre-COVID revenue levels in FY23.
2. The company is sitting on sizeable cash position with minimal working capital requirements. It can comfortably fund its capex from internal accruals and charter an aggressive growth path for the future.
3. The company has ownership/lease rights for some of the top locations in Mumbai.

Weakness:

The company faces severe competition in all its segments and hence, will require significant investments to stay relevant. Also, increasing competition may impact margins in the future

Opportunities:

1. The company currently has 90% occupancy in its IT park. If the demand persists, company can get better rental yields and lease terms.
2. Opportunity to grow the foods segment through alliances with other restaurants, expanding product portfolio.

Threats:

1. **IT Parks:** Downsizing of office space by companies post COVID-19 may slower demand. Need for greener spaces may require greater investment. Competition in financing terms may impact cash flows.
2. **Exhibitions:** Restrictions of Chinese firms can lead to reduced participation from China, and hence, impact demand/ participation in events

RATINGS

All ratings mentioned in this report refer to a 12 month horizon, unless mentioned otherwise

RATINGS	
BUY	>15% Return
HOLD	5% to 15% Return
REDUCE	0 to 5% Return
SELL	Negative Return

About the Analyst

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Investment trigger/ Growth drivers

1. Upgradation of Towers in IT park: the company is in the process of upgrading Tower 2 (4.6 million sq.ft.) with latest infrastructure facilities, which will allow for better rental yields and higher demand
2. New restaurants and expansion of outdoor catering business: Revenue from Foods segment has grown 4x in the past year from INR 11 crores to INR 49 crores. With the lifting of COVID restrictions and new restaurants getting operationalised, foods and outdoor catering segment will continue to grow the top line.
3. Indrabator: Improvement in capacity utilisation/ efficiency through more no. of shifts, focus on large size orders and exports.

Financial Outlook & Valuation

The company has delivered on an average 15-20% Y-o-Y sales growth historically(excluding the COVID period). Assuming the trend continues company over the next three years, and with OPM close to 65% and Net profit in the range of 40%, the intrinsic value of its equity share is around INR 800 to INR900 (13% -30% increase from the current levels). PE multiple considered for the purpose is in the range of 16-18x, which is reasonable considering the historical trend of 20x multiple enjoyed by the company. There are no direct comparable peers for the company. However, if we look at Hotels & Restaurants business , the average industry PE for the segment is 33x, much higher than the multiples considered for computing value here.

Particulars (INR Cr)	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26
Sales	361	432	291	337	546	628	722	830
Sales Growth %	12%	20%	-33%	16%	62%	15%	15%	15%
Expenses	128	154	105	117	179	220	260	307
Operating Profit	233	278	186	220	367	408	462	523
OPM %	1	1	1	1	1	1	1	1
Other Income	32	43	65	44	45	40	40	40
Interest	5	6	8	9	12	12	12	12
Depreciation	12	22	26	28	33	36	40	44
Profit before tax	248	292	216	226	367	400	450	507
Tax %	27%	20%	20%	16%	21%	21%	21%	21%
Net Profit	180	234	172	189	291	316	356	401
NPS%	50%	54%	59%	56%	53%	50%	49%	48%
No of shares (in crores)	7	7	7	7	7	7	7	7
EPS in Rs	26	33	24	27	41	45	50	57
					PE	18x	17x	16x
					Intrinsic value	806	850	909

As per Discounted Cash Flow ("DCF") Method, intrinsic value is in the range of INR 800- INR 1300.

Fair Value Calculation									
all numbers in crores									
	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28	Terminal
Projected Year				1	2	3	4	5	5
FCF	132.00	150.00	176.00	165.90	204.34	216.64	294.48	329.67	329.67
Discount Factor				1.08	1.16	1.25	1.34	1.45	0.06
Discounted				154.07	176.24	173.52	219.05	227.74	5921.82
Enterprise Value				6872					
Net Debt				-18					
Fair Value (INR Cr)				6890					
Shares Outstanding (in cr)				7					
Intrinsic value of equity (INR)				976					

Sensitivity Analysis		Terminal Growth rate			
	976	2.0%	2.5%	3.0%	3.5%
WACC	7.7%	976	1,061	1,165	1,294
	8.2%	906	978	1,064	1,168
	8.7%	795	848	910	983

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