

On course for recovery...

About the stock: Nesco Ltd (Nesco) is in the business of development and management of commercial/IT-ITeS real estate, exhibition centre and foods business. It manages two commercial with leasable area of 1.75 million square feet (msf) and BEC spread over 0.77 msf.

- As part of its future plans, the company has outlined a capex plan of ~₹ 2000 crore to (i) build ~2.6 msf sq leasable area commercial tower along with a 350 keys four-star hotel and ii) refurbish and expand the BEC

Update: Nesco has had a muted FY21 and H1FY22 but is looking towards recovery with improved occupancy at IT park and gradual pick-up in the exhibition business.

- In Q2FY22, reported revenues were up 26% YoY at ₹ 80.8 crore. The IT park revenues were up 18% YoY at ₹ 65.2 crore while exhibition revenues remained marginal. EBITDA at ₹ 50.3 crore, was up 62.3% YoY while PAT at ₹ 44 crore was up 54% YoY
- The overall occupancy at Tower 4 was at ~90% (vs. 75% in FY21) while IT Tower 3 is at ~80% occupancy levels, with a gradual recovery likely

What should investors do? Nesco's share price was up ~65% over the past five years.

- We maintain BUY rating on the stock. With improved occupancies in IT park and gradual recovery in exhibition business (six to seven exhibitions lined up in the next few months), earnings recovery to be sharp, going ahead

Target Price and Valuation: We value Nesco at ₹ 770/share.

Key triggers for future price performance:

- With increased vaccination pace and economic recovery, exhibition business to recovery gradually with pre-Covid run rate likely by H2FY23
- Improving occupancy in the IT park segment and strategic sweet spot in Goregaon micro market to provide sustained demand for current as well as planned capex in the medium term

Alternate Stock Idea: Besides Nesco, we like Mahindra Life in the realty sector

- A play on expanding residential real estate portfolio
- BUY with a target price of ₹ 335



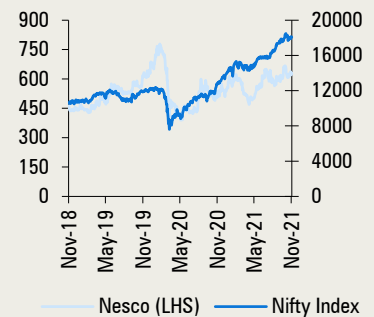
Particulars

Particular	Amount
Market Capitalization	4,434.8
Total Debt	0.0
Cash & equivalent (FY21)	819.2
EV	3,615.5
52 week H/L (₹)	697 / 465
Equity capital	14.1
Face value	₹ 2

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	68.5	68.5	68.5	68.5
DII	4.4	4.8	4.7	4.5
FII	2.2	2.1	2.1	2.2
Other	24.8	24.6	24.6	24.8

Price Chart



Key Risks

Key Risk: (i) Any exit by key tenants and failure to re-lease ii) Extended tail of pandemic impacting exhibition business recovery

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR FY16-21	FY22	FY23	2 year CAGR FY20-23
Net Sales (₹ crore)	360.9	431.7	291.1	-1.3%	344.1	501.2	31.2%
EBITDA (₹ crore)	232.8	278.2	185.7	-2.9%	199.9	333.6	34.0%
EBITDA Margin (%)	64.5	64.4	63.8		58.1	66.6	
Net Profit (₹ crore)	180.4	233.9	172.5	0.3%	172.4	261.5	23.1%
EPS (₹)	25.6	33.2	24.5		24.5	37.1	
P/E (x)	24.6	19.0	25.7		25.7	17.0	
Price / Book (x)	3.8	3.3	2.9		2.6	2.3	
EV/EBITDA (x)	18.9	15.7	23.2		21.6	12.9	
RoCE (%)	20.1	19.8	13.3		12.0	16.4	
RoE (%)	15.4	17.2	11.3		10.3	13.7	

Source: Company, ICICI Direct Research

Key business highlight and outlook

- BEC expansion & current status:** There are five exhibition halls and one banquet space dedicated to BEC spanning ~6.1 lakh sq ft. Additionally, Nesco has added ~1.6 lakh sq ft to the total area, by temporarily utilising the available space nearby exhibition centre, thereby taking total area to 7.7 lakh sq ft. Out of these, only 2.4 lakh sq ft of area is accessible for exhibition currently while the rest are still occupied by MCGM (for ICU, Covid care centre, vaccination, etc.). Consequently, in the available space, the company has started getting new booking and has schedule for six to seven exhibitions in the next two months. The momentum is expected to pick up gradually, going forward, with the resumption of corporate fairs. On the expansion front, Nesco has started refurbishing its existing BEC halls in a gradual manner (capex: ₹ 50 crore). It intends to demolish one of the factory sheds (~1 lakh sq ft) and expand it for BEC for a capex of ~₹ 100 crore (~10 months to be required for completion). Additionally, there are long term plans to create new halls and convert some into convention centres (vertical structures) with larger areas of ~12-13 lakh sq ft. The plans got delayed due to Covid-19 disruptions. However, it is yet to finalise when/if to start
- IT park status and expansion plans:** Nesco is witnessing improved traction for its IT park in terms of a pick-up in enquiries and higher conversions. In line with these, the company has signed two fresh contracts for ~0.15 mn sq ft leasable area, which improved the overall occupancy at Tower 4 to ~90%. Also, IT Tower 3 (~6.5 lakh sq ft- leasable area) has ~80% occupancy levels (vs. ~100% in FY20). Together, Tower-3 and 4, is generating revenue of ~₹ 20 crore on a monthly basis, which the management expects to improve to ~₹ 22 crore with leasing of 0.15 mn sq ft. Rental rate has sustained at ~₹ 145-150/month (all inclusive). On the expansion front, the company is currently in the approval phase for commercial tower with ~2.6 mn sq ft of leasable area with a 350 keys four-star hotel. The management expects construction for the same to begin in the next two to three months, which is likely to get completed over the next four to four and half years (capex: ₹ 1,800-2,000 crore). The company also expects to benefit from FSI premium benefits of ~₹ 200-250 crore (out of originally planned FSI cost of ₹ 500-550 crore)
- Hospitality plans and status:** There was huge demand for F&B given the exhibition and presence of IT park employees. Thus, in order to cater these demands, the company has built 25,000 sq ft kitchen (Nesco Foods) that is capable of serving ~40,000 meals. The same is mandated for any exhibition in BEC, thereby providing huge opportunity. As of now, the company has built four restaurants with a capex/expense of ~₹ 3-4 crore. The management expects a pick-up in revenue with increase in footfalls with a pick-up in exhibitions and fairs. However, in order to diversify the segmental revenue stream other than in-house opportunities, the company has started a) outdoor catering services including weddings, corporate events, seminars, and b) targeting to open food outlets/kiosks in metro stations. The company intends to be a social gathering hub, in the medium term and is targeting revenue of ~₹ 100 crore over the next five years
- Indabrator:** Given its strong order book and increased capacity of abrasives, the management expects a continuance of improved momentum in divisional business in Q3FY22. Key factors for demand have been China+1 and improved steel realisations. Overall, the management has guided for ~50% revenue growth during FY22 on a YoY basis, albeit on a lower base. However, the segmental topline during FY23 is likely to remain at around FY22 levels

We like Nesco, given the prudent management pedigree, steady & planned expansion across verticals funded largely through internal accruals and niche profitable business model including foods/own events etc. Post a washout FY21 and H1FY22 for exhibition, we expect a gradual recovery as pandemic effect fades completely and expect H2FY23 to be the time when full recovery to pre-Covid levels could be seen in the exhibition business. The IT park business will also be boosted as occupancies have improved and with further improvement over the next couple of quarters. We maintain BUY on the stock with an SoTP target price of ₹ 770/share (earlier ₹ 745).

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	431.7	291.1	344.1	501.2
Growth (%)	19.6	(32.6)	18.2	45.7
Raw Material Cost	18.6	17.0	17.2	25.1
Employee Cost	19.9	16.0	15.5	22.6
Other Expenditure	115.1	72.4	105.2	120.7
Total Operating Expenditure	153.5	105.4	137.9	168.3
EBITDA	278.2	185.7	206.2	332.9
Growth (%)	19.5	(33.3)	11.1	61.4
Other income	42.5	64.6	42.0	35.0
Depreciation	22.4	25.7	25.9	26.5
EBIT	298.3	224.5	222.3	341.4
Interest	6.0	8.2	8.2	8.2
PBT	292.3	216.3	230.5	349.6
Tax	58.4	43.9	58.1	88.1
Rep. PAT	233.9	172.5	172.4	261.5
Exceptional items	-	-	-	-
Adj. Net Profit	233.9	172.5	172.4	261.5
Growth (%)	29.6	(26.3)	(0.0)	51.7
EPS (₹)	33.2	24.5	24.5	37.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	233.9	172.5	172.4	261.5
Depreciation	22.4	25.7	25.9	26.5
Interest	-	-	-	-
Taxes	58.4	43.9	58.1	88.1
Others	6.0	9.0	8.2	8.2
Cash Flow before wc changes	320.7	250.3	264.7	384.3
Net Increase in Current Assets	(58.0)	(46.6)	(29.1)	23.5
Net Increase in Current Liabilities	74.0	40.3	52.6	(58.1)
Net cash flow from operating activi	278.3	199.4	230.0	261.6
Purchase of Fixed Assets	(78.1)	(57.2)	(319.3)	(420.0)
Purchase of Investment	-	-	-	-
Sale of Investments	(141.1)	(137.8)	120.0	200.0
Net Cash flow from Investing Activ	(219.2)	(195.0)	(199.3)	(220.0)
Interest paid	(6.0)	(8.2)	(8.2)	(8.2)
Proceeds from Long Term Borrowing	-	-	-	-
Net Cash flow from Financing Activ	(52.7)	(8.2)	(29.4)	(36.4)
Net Cash flow	6.4	(3.8)	1.4	5.2
Cash and Cash Equivalent at the beg	7.3	13.4	9.2	10.6
Closing Cash & cash equivalents	13.4	9.2	10.6	15.8

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity capital	14.1	14.1	14.1	14.1
Reserves & Surplus	1,343.4	1,515.1	1,666.4	1,899.8
Networth	1,357.5	1,529.2	1,680.5	1,913.9
Loan Funds	-	-	-	-
Deferred Tax liability	26.0	35.9	35.9	35.9
Other financial liabilities	121.6	128.7	128.7	128.7
Total Liabilities	1,505.0	1,693.8	1,845.1	2,078.5
Assets				
Net Block	776.5	759.0	753.1	746.6
Capital WIP	1.3	50.7	350.0	750.0
Non-current Investments	632.2	685.5	575.5	375.5
Othe non-current assets	31.9	38.1	38.1	38.1
Loans	56.9	76.6	76.6	76.6
Inventories	8.6	7.4	13.2	19.2
Trade Receivables	16.0	29.6	39.4	27.0
Cash & Bank Balances	13.4	9.2	10.6	15.8
Loans & Advances	-	-	-	-
Other current assets	32.8	41.1	54.7	37.5
Total current assets	110.9	211.9	232.4	214.1
Total Current liabilities	104.7	128.0	180.6	122.5
Net Current Assets	6.2	83.9	51.8	91.6
Total Assets	1,505.0	1,693.8	1,845.1	2,078.5

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Reported EPS	33.2	24.5	24.5	37.1
Cash EPS	36.4	28.1	28.1	40.9
BV per share	192.7	217.0	238.5	271.6
Revenue per share	61.3	41.3	48.8	71.1
Cash Per Share	1.9	1.3	1.5	2.2
Operating Ratios (%)				
EBITDA Margin	64.4	63.8	58.1	66.6
PBT / Net Sales	67.7	74.3	67.0	69.8
PAT Margin	54.2	59.2	50.1	52.2
Inventory days	7.3	9.3	14.0	14.0
Debtor days	13.6	37.1	41.8	19.7
Creditor days	12.3	13.3	28.1	13.3
Return Ratios (%)				
RoE	17.2	11.3	10.3	13.7
RoCE	19.8	13.3	12.0	16.4
RoIC	17.6	10.6	12.7	25.6
Valuation Ratios (x)				
P/E	19.0	25.7	25.7	17.0
EV / EBITDA	15.8	23.2	21.6	12.9
EV / Net Sales	10.2	14.8	12.5	8.6
Price to Book Value	3.3	2.9	2.6	2.3
Solvency Ratios (x)				
Debt / EBITDA	-	-	-	-
Net Debt / Equity	(0.0)	(0.1)	(0.1)	(0.1)

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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