

Exhibition business finally gets going! ...

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 msf (mn sq ft) and BEC spread over 0.6 msf.

- As part of its future plans, the company has outlined a capex plan of ~₹ 2400 crore to (i) build ~2.6 msf sq leasable area commercial Tower along with a 350 keys 4-star Hotel and ii) refurbish and expand the BEC

Update: Nesco business is finally seeing an improved outlook with pick up in exhibition business and better occupancy at IT park

- Q2FY23 reported revenues were up 76.9% YoY at ₹ 142.9 crore. The exhibition revenues at ₹ 53.1 crore was up by ~25x YoY on a depressed base, led by full-fledged resumption of exhibition. The IT park revenues were up 11.9% YoY at ₹ 73.1 crore, with overall occupancy at Tower 4 is at ~97% (vs. 92% in FY22), while IT Tower 3 is at ~90% (vs. 80% in FY22).
- EBITDA at ₹ 100.1 crore, was up ~101% YoY driven by operating leverage, with margins at 70.7%, up 840 bps YoY and PAT at ₹ 81.9 crore was up 86% YoY, aided by strong operating performance.

What should investors do? Nesco's share price was up ~21% over the past five years.

- We maintain BUY rating to the company. With improved occupancies in IT park and recovery in exhibition business, earning recovery is likely to be sharp, going ahead.

Target Price and Valuation: We value Nesco at ₹ 800/share.

Key triggers for future price performance:

- We expect exhibition business to recover sharply to attain pre-covid run rate.
- 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 medium to long term.

Alternate Stock Idea: Besides Nesco, we like Phoenix Mills in the realty space

- A quasi play on consumption through malls
- BUY with a target price of ₹ 1775



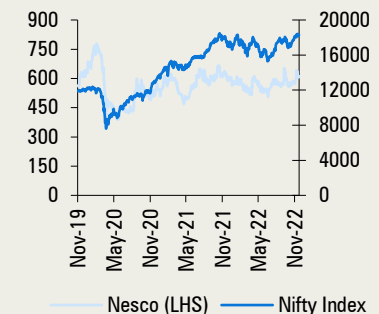
Particulars

Particular	Amount
Market Capitalization	4,395
Total Debt	0
Cash & equivalent (FY22)	856
EV	3,540
52 week H/L (₹)	686 / 502
Equity capital	14.1
Face value	₹ 2

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	68.5	68.5	68.5	68.5
DII	4.3	4.4	4.3	4.1
FII	2.2	2.0	2.0	2.1
Other	25.0	25.1	25.2	25.3

Price Chart



Key Risks

Key Risk: (i) Any exit by key tenants and failure to re-lease ii) Any further pandemic waves impacting the exhibition business recovery

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR FY17-22	FY23	FY24	2 year CAGR FY22-24
Net Sales (₹ crore)	360.9	431.7	291.1	337.9	1.0%	514.5	610.7	34.4%
EBITDA (₹ crore)	232.8	278.2	185.7	219.6	0.1%	333.9	402.8	35.4%
EBITDA Margin (%)	64.5	64.4	63.8	65.0		64.9	66.0	
Net Profit (₹ crore)	180.4	233.9	172.5	189.2	1.2%	298.3	332.8	32.6%
EPS (₹)	25.6	33.2	24.5	26.9		42.3	47.2	
P/E (x)	24.4	18.8	25.5	23.2		14.7	13.2	
Price / Book (x)	3.8	3.2	2.9	2.6		2.2	1.9	
EV/EBITDA (x)	18.7	15.6	23.0	19.1		11.8	9.7	
RoCE (%)	20.1	19.8	13.3	12.5		16.5	17.4	
RoE (%)	15.4	17.2	11.3	11.1		15.1	14.6	

Key business highlight and outlook

- BEC current status and expansion:** With exit of MCGM, the company got back the access to five exhibition halls and one banquet space dedicated to BEC spanning ~6.1 lakh sq ft. The company has resumed exhibition from August onwards and saw a strong traction which is visible in Q2FY23 revenues. We believe the order book is robust for the next couple of quarters and pre-covid run rate of exhibition business is likely ahead. We also highlight that while Jio convention centre has lapped up couple of exhibition (which was originally done in Nesco), the overall demand remains strong for exhibition needs and the current order book implies that there is no major relative loss of revenues. On the expansion front, company intends to demolish one of the factory shed and expand it for BEC (hall 6 with 450 car parks in the basement) for a capex of ~₹125-130 crore (~10 months would be required for completion) with net leasable area addition of ~1.5 lakh sq feet. We expect this additional capacity to generate revenues from FY25.
- IT park status and expansion plans:** NESCO is witnessing improved traction for its IT park in terms of higher occupancies. The IT park revenues were up 11.9% YoY at ₹ 73.1 crore, with overall occupancy at Tower 4 is at ~97% (vs. 92% in FY22), while IT Tower 3 is at ~90% (vs. 80% in FY22). On the expansion front, the company is currently in the approval phase for commercial tower having ~2.6 mn sq ft of leasable area with a 350 keys four-star hotel. The construction for the same is expected to begin by H1FY24, which is likely to get completed over next 4.5 years (capex: ~₹ 2300 crore).
- Hospitality plans and status:** We highlight that given the huge demand for F&B given the exhibition and presence of IT park employees., 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 a food court and has built four restaurants (two operational). The pick-up in revenue is likely with increase in footfalls with pick-up in exhibitions and fairs. The company has started a) outdoor catering services including weddings, corporate events, seminars. The company intends to be a social gathering hub, in the medium term and targeting annual revenue of ~₹ 100 crore over next 3-4 years.
- Indabrator:** Given its healthy order book and increased capacity of abrasives, the segment is likely to remain steady
- The balance sheet is strong with liquidity of ~₹ 1000 crore as of Q2FY23.**

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 2.5 years for the exhibition business, we expect H2FY23 to witness full recovery to pre-covid levels in the exhibition business. The IT Park business will also be boosted as the occupancies have improved and further improvement over next couple of quarters. We maintain BUY on the stock with a SoTP target price of ₹ 800/share (₹ 770, earlier).

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	291.1	337.9	514.5	610.7
Growth (%)	(32.6)	16.1	52.3	18.7
Raw Material Cost	17.0	25.8	36.0	42.7
Employee Cost	16.0	13.4	21.6	25.6
Other Expenditure	72.4	79.1	123.0	139.5
Total Operating Expenditure	105.4	118.3	180.6	207.9
EBITDA	185.7	219.6	333.9	402.8
Growth (%)	(33.3)	18.3	52.1	20.6
Other income	64.6	44.5	55.0	63.0
Depreciation	25.7	28.3	30.9	35.8
EBIT	224.5	235.7	357.9	429.9
Interest	8.2	9.2	15.0	15.0
PBT	216.3	226.5	372.9	444.9
Tax	43.9	37.3	74.6	112.1
Rep. PAT	172.5	189.2	298.3	332.8
Exceptional items	-	-	-	-
Adj. Net Profit	172.5	189.2	298.3	332.8
Growth (%)	(26.3)	9.7	57.7	11.5
EPS (₹)	24.5	26.9	42.3	47.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	172.5	189.2	298.3	332.8
Depreciation	25.7	28.3	30.9	35.8
Interest	-	-	-	-
Taxes	43.9	37.3	74.6	112.1
Others	8.2	9.2	15.0	15.0
Cash Flow before wc changes	250.3	264.0	418.8	495.7
Net Increase in Current Assets	(46.6)	5.6	4.3	4.8
Net Increase in Current Liabilities	40.3	(18.5)	(10.5)	(11.2)
Net cash flow from operating activi	199.4	213.1	338.1	377.2
Purchase of Fixed Assets	(57.2)	(144.5)	(57.9)	(290.0)
Purchase of Investment	-	-	-	-
Sale of Investments	(137.8)	(36.3)	(153.0)	(50.0)
Net Cash flow from Investing Activ	(195.0)	(180.8)	(211.0)	(340.0)
Interest paid	(8.2)	(9.2)	(15.0)	(15.0)
Other	-	-	-	-
Net Cash flow from Financing Activ	(8.2)	(32.1)	(36.1)	(50.2)
Net Cash flow	(3.8)	0.3	91.0	(13.0)
Cash and Cash Equivalent at the beg	13.4	9.2	9.5	100.5
Closing Cash & cash equivalents	9.2	9.5	100.5	87.5

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity capital	14.1	14.1	14.1	14.1
Reserves & Surplus	1,515.1	1,683.6	1,960.8	2,258.4
Networth	1,529.2	1,697.7	1,974.9	2,272.5
Loan Funds	-	-	-	-
Deferred Tax liability	35.9	31.4	31.4	31.4
Other financial liabilities	128.7	161.0	161.0	161.0
Total Liabilities	1,693.8	1,890.1	2,167.3	2,464.8
Assets				
Net Block	759.0	846.8	825.8	910.0
Capital WIP	50.7	82.1	130.0	300.0
Non-current Investments	685.5	649.3	649.3	649.3
Othe non-current assets	38.1	31.7	31.7	31.7
Loans	76.6	77.3	77.3	77.3
Inventories	7.4	7.5	19.7	23.4
Trade Receivables	29.6	18.6	14.3	12.0
Cash & Bank Balances	9.2	9.5	100.5	87.5
Loans & Advances	-	-	-	-
Other current assets	41.1	52.0	39.8	33.6
Total current assets	211.9	284.6	524.3	556.5
Total Current liabilities	128.0	81.7	71.2	60.0
Net Current Assets	83.9	202.9	453.1	496.5
Total Assets	1,693.8	1,890.1	2,167.3	2,464.8

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	24.5	26.9	42.3	47.2
Cash EPS	28.1	30.9	46.7	52.3
BV per share	217.0	241.0	280.3	322.5
Revenue per share	41.3	48.0	73.0	86.7
Cash Per Share	1.3	1.4	14.3	12.4
Operating Ratios (%)				
EBITDA Margin	63.8	65.0	64.9	66.0
PBT / Net Sales	74.3	67.0	72.5	72.9
PAT Margin	59.2	56.0	58.0	54.5
Inventory days	9.3	8.1	14.0	14.0
Debtor days	37.1	20.1	10.1	7.2
Creditor days	13.3	9.6	12.6	8.9
Return Ratios (%)				
RoE	11.3	11.1	15.1	14.6
RoCE	13.3	12.5	16.5	17.4
RoIC	10.6	11.9	19.1	21.9
Valuation Ratios (x)				
P/E	25.5	23.3	14.7	13.2
EV / EBITDA	23.0	19.1	11.8	9.7
EV / Net Sales	14.7	12.4	7.7	6.4
Price to Book Value	2.9	2.6	2.2	1.9
Solvency Ratios (x)				
Debt / EBITDA	-	-	-	-
Net Debt / Equity	(0.1)	(0.1)	(0.2)	(0.2)

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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