

BEC to recover from FY22 onwards...

Nesco's 9MFY21 (and Q3FY21) performance was impacted by virtual closure of Bombay Exhibition Centre (BEC), which was used for Covid Care by BMC and subsequent minimal take-off in hospitality (foods & own events business). For Q3FY21, revenues declined 28.3% YoY at ₹ 82.5 crore, largely impacted by 91.3% decline in BEC revenues and ~53.2% decline in hospitality segment. EBITDA at ₹ 52.9 crore was down 31.6% YoY. PAT at ₹ 48.9 crore for Q3FY21 was down 29.2% YoY.

BEC to witness traction from Q1FY22 in gradual manner

While BEC was occupied by BMC for Covid care, the company booked revenues of ₹ 3.3 crore, which was largely on account of notional rental that it received from BMC for May-September, 2020. In February, the company had two exhibitions (own IP- Auto Show and by Acetech), albeit on a smaller scale, for three days in the other sheds. This will generate nominal revenues but most importantly, signified that exhibition business has started. Consequently, the company is getting new booking from April onwards, albeit for smaller exhibition. On the expansion front, it intends to demolish one of the factory shed (~1 lakh sq. feet) and expand it for BEC for a capex of ~₹ 85-100 crore, which will be completed by FY22 end. We expect full throttle recovery only by H2FY22 and FY23 revenues to be boosted further by expanded facility.

IT Park stable; remaining leasing to be done by FY22

The company reported IT park revenues of ₹ 64 crore, up 1.2% YoY with muted growth owing to some exits in H1FY21. IT Tower 3 (~6.5 lakh square feet- leasable area) is at 85-88% occupancy levels vs. ~100% in FY20 as there was one minor exit and another set of anchor tenant who moved to Tower 4. As per the company, there is enough pipeline & enquiry for Tower 3 and the company expects it to be fully occupied again in the next six months. Rental rate is at ~₹ 135-140/month. Tower 4 (operational from Q2FY20), which has leasable area of 11 lakh sq ft, is ~75% occupied. For this tower, the company expects full tenancy by FY22 end, with full rental likely to kick in from Q2FY23 onwards.

Valuation & Outlook

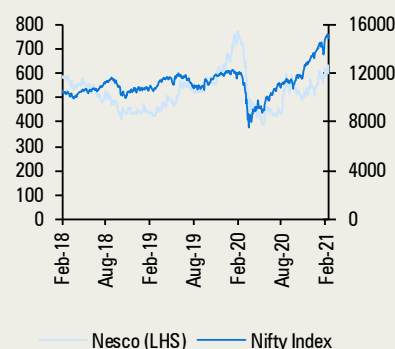
We like Nesco, given the prudent management pedigree, steady & planned expansion across verticals funded largely through internal accruals and niche profitable business model including foods/own events etc. Post a washout FY21 for exhibition, we expect gradual recovery from H1FY22 as pandemic effect fades completely. The IT park business is also likely to get a boost as occupancies improve in FY22. We maintain **BUY** rating on the stock with an SoTP target price of ₹ 745/share (₹ 650, earlier).



Particulars

Particular	Amount
Market Capitalization	4,225.8
Total Debt	0.0
Cash & equivalent	685.7
EV	3,540.2
52 week H/L (₹)	754 / 380
Equity capital	14.1
Face value	₹ 2

Price Performance



Key risk to our call

- Any exit by key tenants
- Delay in recovery of exhibition business

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	FY23	CAGR FY20-23
Net Sales (₹ crore)	360.9	431.7	301.0	425.3	516.9	6.2%
EBITDA (₹ crore)	232.8	278.2	194.0	272.1	339.6	6.9%
EBITDA Margin (%)	64.5	64.4	64.5	64.0	65.7	
Net Profit (₹ crore)	180.4	233.9	189.9	221.7	263.9	4.1%
EPS (₹)	25.6	33.2	26.9	31.5	37.5	
P/E (x)	23.4	18.1	22.3	19.1	16.0	
Price / Book (x)	3.6	3.1	2.8	2.5	2.2	
EV/EBITDA (x)	18.0	15.0	20.3	15.0	12.0	
RoCE (%)	20.1	19.8	14.0	15.5	16.5	
RoE (%)	15.4	17.2	12.5	12.9	13.6	

Source: ICICI Direct Research, Company

BEC expansion & current status

There are five exhibition halls dedicated to BEC spanning ~5 lakh square feet. Out of these five, four are occupied by BMC (for ICU, Covid Care Centre, vaccination, etc). With all five of them interconnected/net to each other, the company is not using them at all for exhibition. From April-December, no revenues from exhibition were booked. The company expects to get the possession for some of them back by FY21 end.

During Q3FY21, the company booked revenues of ₹ 3.3 crore, which was largely on account of notional rental that it received from BMC for May-September, 2020. The company also expects some amount for October-March, 21 rentals but expects it to be nominal.

There are three other halls (factory sheds), of which two were part of IT park and one is banquet used by Nesco Foods. In February, the company had two exhibitions (own IP- Auto Show and by Acetech), albeit on a smaller scale, for three days in the other sheds. This will generate nominal revenues but signified that exhibition business has started. Consequently, the company is getting new booking from April onwards, albeit for smaller exhibition. The company has indicated that there has been no pricing discount, as industry works on flat rate.

On the expansion front, it intends to demolish one of the factory shed (~1 lakh sq ft) and expand it for BEC for a capex of ~₹ 85-100 crore, which will be completed in FY22. The same will start contributing to revenues from FY23 onwards. Furthermore, over the medium to long term, it wants to refurbish the entire existing BEC in gradual manner and convert into convention centres (vertical structures) with larger areas of ~12-13 lakh sq. feet. The expansion, as the company, is at the request of key customer who have normally larger area for exhibition. Furthermore, it will enable the company to host big exhibition which is normally held in NCR.

IT park status & expansion plan

IT Tower 1 and 2 are small factory sheds of ~1 lakh sq ft and 60,000 sq ft, which are currently vacant and partly used for exhibition in Q4. IT Tower 3 (~6.5 lakh sq ft- leasable area) is at 85-88% occupancy levels vs. ~100% in FY20 as there was one minor exit and another set of anchor tenant who moved to Tower 4. There is enough pipeline & enquiry for Tower 3 and the company expects it to be fully occupied again in the next six months. Rental rate is at ~₹ 135-140/month. Tower 4 (operational from Q2FY20), which has leasable area of 11 lakh sq ft, is ~75% occupied. For this tower, the company expects full tenancy by FY22 end, with full rental likely to kick in from Q2FY23 onwards.

On the expansion front, Tower 2 is likely to be demolished and along with other space, the company intends to build 26 lakh sq ft leasable area commercial tower along with a 350 keys four-star hotel. The total developable area is likely to be ~45 lakh sq ft at a capex of ~₹ 1800-2000 crore (~₹ 1600 crore for IT Tower), to be built over the next five years. The company also expects to benefit from FSI premium benefits of ~₹ 200 crore (out of originally planned FSI cost of ₹ 500 crore).

Hospitality plans and status

There is huge demand for F&B given the exhibition and presence of IT park employees. The company has built 25000 sq ft kitchen (Nesco Foods) that is capable of serving ~40000 meals. The same is mandated for any exhibition in BEC, thereby providing huge opportunity. As per Nesco ~10-15% revenues are from IT park packed lunches, ~40-50% from BEC and balance from outside including weddings, corporate events, seminars in the facility.

The company intends to be a social gathering hub, in the medium term. The company has seven new restaurants including marquee brands and one own lounge bar. By H1FY23, the company expects restaurants to be ready. The company is also looking at outdoor catering and has tied up with few wedding venues. It expects this segment to grow fast over the medium to long term and expect to thrive on footfalls in the overall campus.

Other

- Indabrator reported 182% YoY growth in revenues, given the spillover of last year backlog and strong order booking. The company expects the strong growth momentum in FY22 given the strong order book and increased capacity of abrasives

Financial Summary

Exhibit 1: Profit and loss statement (₹ crore)				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	431.7	301.0	425.3	516.9
Growth (%)	19.6	(30.3)	41.3	21.5
Raw Material Cost	18.6	18.1	21.3	25.8
Employee Cost	19.9	18.1	19.1	23.3
Other Expenditure	115.1	70.8	112.8	128.1
Total Operating Expenditure	153.5	107.0	153.2	177.2
EBITDA	278.2	194.0	272.1	339.6
Growth (%)	19.5	(30.3)	40.3	24.8
Other income	42.5	65.0	43.6	33.1
Depreciation	22.4	25.7	26.3	26.9
EBIT	298.3	233.3	289.4	345.8
Interest	6.0	7.0	7.0	7.0
PBT	292.3	240.3	296.4	352.8
Tax	58.4	50.5	74.7	88.9
Rep. PAT	233.9	189.9	221.7	263.9
Exceptional items	-	-	-	-
Adj. Net Profit	233.9	189.9	221.7	263.9
Growth (%)	29.6	(18.8)	16.8	19.0
EPS (₹)	33.2	26.9	31.5	37.5

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet (₹ Crore)				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity capital	14.1	14.1	14.1	14.1
Reserves & Surplus	1,343.4	1,509.0	1,702.3	1,932.4
Networth	1,357.5	1,523.1	1,716.4	1,946.5
Loan Funds	-	-	-	-
Deferred Tax liability	26.0	26.0	26.0	26.0
Other financial liabilities	121.6	121.6	121.6	121.6
Total Liabilities	1,505.0	1,670.6	1,863.9	2,094.1
Assets				
Net Block	776.5	770.9	764.6	757.7
Capital WIP	1.3	30.0	430.0	730.0
Non-current Investments	632.2	632.2	532.2	432.2
Other non-current assets	31.9	31.9	31.9	31.9
Loans	56.9	56.9	56.9	56.9
Inventories	8.6	11.5	16.3	19.8
Trade Receivables	16.0	19.5	13.8	11.3
Cash & Bank Balances	13.4	207.3	53.6	115.9
Loans & Advances	-	-	-	-
Other current assets	32.8	17.3	12.3	10.1
Total current assets	110.9	345.7	186.0	197.2
Total Current liabilities	104.7	197.0	137.7	111.9
Net Current Assets	6.2	148.7	48.3	85.3
Total Assets	1,505.0	1,670.6	1,863.9	2,094.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement (₹ crore)				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	233.9	189.9	221.7	263.9
Depreciation	22.4	25.7	26.3	26.9
Interest	-	-	-	-
Taxes	58.4	50.5	74.7	88.9
Others	6.0	7.0	7.0	7.0
Cash Flow before wc changes	320.7	273.0	329.7	386.7
Net Increase in Current Assets	(58.0)	9.1	6.0	1.1
Net Increase in Current Liabilities	74.0	92.3	(59.3)	(25.8)
Net cash flow from operating activities	278.3	323.9	201.6	273.1
Purchase of Fixed Assets	(78.1)	(48.7)	(420.0)	(320.0)
Purchase of Investment	-	-	-	-
Sale of Investments	(141.1)	(50.0)	100.0	150.0
Net Cash flow from Investing Activities	(219.2)	(98.7)	(320.0)	(170.0)
Interest paid	(6.0)	(7.0)	(7.0)	(7.0)
Proceeds from Long Term Borrowings	-	-	-	-
Net Cash flow from Financing Activities	(36.0)	(31.3)	(35.4)	(40.8)
Net Cash flow	23.2	193.9	(153.7)	62.3
Cash and Cash Equivalent at the beginning	7.3	13.4	207.3	53.6
Closing Cash & cash equivalents	13.4	207.3	53.6	115.9

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Reported EPS	33.2	26.9	31.5	37.5
Cash EPS	36.4	30.6	35.2	41.3
BV per share	192.7	216.2	243.6	276.3
Revenue per share	61.3	42.7	60.4	73.4
Cash Per Share	1.9	29.4	7.6	16.4
Operating Ratios (%)				
EBITDA Margin	64.4	64.5	64.0	65.7
PBT / Net Sales	67.7	79.9	69.7	68.3
PAT Margin	54.2	63.1	52.1	51.1
Inventory days	7.3	14.0	14.0	14.0
Debtor days	13.6	23.6	11.8	8.0
Creditor days	12.3	36.8	18.4	12.5
Return Ratios (%)				
RoE	17.2	12.5	12.9	13.6
RoCE	19.8	14.0	15.5	16.5
RoIC	17.6	12.5	19.1	25.9
Valuation Ratios (x)				
P/E	18.1	22.3	19.1	16.0
EV / EBITDA	15.0	20.2	15.0	12.0
EV / Net Sales	9.7	13.1	9.6	7.9
Price to Book Value	3.1	2.8	2.5	2.2
Solvency Ratios (x)				
Debt / EBITDA	-	-	-	-
Net Debt / Equity	(0.0)	(0.2)	(0.1)	(0.1)

Source: Company, ICICI Direct Research

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Sell: <-15%



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