

Planning new capex phase through internal accruals

Nesco reported a steady set of numbers in Q1FY20. On the operational front, Nesco IT Park Tower 4 has been completed while license agreements with reputed clients viz. WeWorks, KPMG etc, have been finalised. This tower could generate gross revenues to the tune of ₹ 200 crore once fully leased. Going ahead, Nesco is considering taking up two new projects - New Hall in BEC (~2.5 Isf) and New IT Park tower 2 (~24 Isf) at total capex of ~₹ 1,700 crore and are proposed to be financed from internal accruals.

Delivers steady results in Q1FY20...

Nesco reported steady results in Q1FY20. Revenues grew 3.7% YoY to ₹ 78.3 crore (IT Park's revenues grew 9.1% YoY to ₹ 34.7 crore while BEC's revenue de-grew 7.8% YoY to ₹ 27.7 crore). EBITDA margin was flattish YoY at 62.2%. Overall, PAT grew 4.1% YoY to ₹ 37.8 crore in Q1FY20. For FY19, Nesco reported 12.0% YoY growth in revenues to ₹ 359.6 crore, led by 20.3% YoY growth in BEC's revenues to ₹ 156.0 crore in FY19 while PAT grew 1.0% YoY to ₹ 180.4 crore in FY19 following 370 bps contraction in EBITDA margin.

Finalises license agreement with four clients at IT Park Tower 4

Nesco completed IT Park Tower 4 (17 Isf built up area) at a total cost of ₹ 570 crore. License agreements with Here Solutions, WeWorks, KPMG & India First Life Insurance have been finalised while Nesco is looking at other licensees at this tower. Once fully occupied, Tower 4 could generate revenues worth ₹ 200 crore per annum. Going ahead, Nesco is considering taking up two new projects: a) New Hall in BEC (~2.5 Isf); b) New IT Park tower 2 (~24 Isf) post demolition of current IT tower 2, at a total capex of ~₹ 1,700 crore, which is proposed to be financed through internal accruals.

Sets up Nesco Exhibition at BEC to launch own exhibitions...

Bombay Exhibition Centre (BEC) held 118 exhibitions in FY19 (19 exhibitions were first time organisers). Nesco has now set up a new division - Nesco Exhibitions, which will launch its own exhibitions. In FY20E, these will include India Auto Show, Edutech, Machine Tools, Manufacturing & Technology Expo, Hobby & Lifestyle India and Arogya Expo. At BEC, Nesco added one new hall (~1.16 Isf) at a cost of ₹ 25 crore.

Valuation & Outlook

At the CMP, Nesco is trading at 21x FY19 EPS. We like Nesco, given the prudent management pedigree, steady & planned expansion across verticals funded largely through internal accruals and niche profitable business model. Hence, we maintain **BUY** on the stock with a TP of ₹ 650/share.



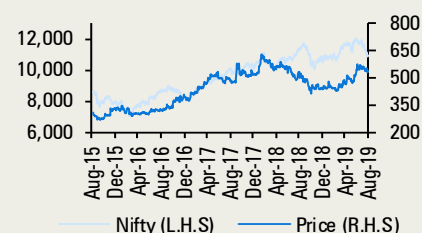
Particulars

Particular	Amount
Market Capitalization	3,783.7
Total Debt	0.0
Cash & equivalent	538.5
EV	3,245.2
52 week H/L (₹)	588 / 405
Equity capital	14.1
Face value	₹ 2

Key Highlights

- Nesco reported steady Q1FY20 results wherein topline grew 3.7% YoY to ₹ 78.3 crore
- License agreements with Here Solutions, WeWorks, KPMG & India First Life Insurance have been finalised at Nesco IT Park Tower 4
- Nesco is considering taking up two new projects: New Hall in BEC and New IT Park tower 2 at total capex of ~₹ 1,700 crore
- Maintain BUY with target price of ₹ 650/share

Price Chart



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Key Financial Summary

(₹ Crore)	FY15	FY16	FY17	FY18	FY19	CAGR FY15-19
Net Sales (₹ crore)	194.5	263.5	311.4	321.2	359.6	16.6%
EBITDA (₹ crore)	137.8	188.5	214.6	218.5	231.4	13.8%
EBITDA Margin (%)	70.9	71.5	68.9	68.0	64.4	
Net Profit (₹ crore)	111.5	144.1	169.9	178.7	180.4	12.8%
EPS (₹)	15.8	20.5	24.1	25.4	25.6	
P/E (x)	33.9	26.2	22.3	21.2	21.0	
Price / Book (x)	6.7	5.6	4.4	3.7	3.2	
EV/EBITDA (x)	26.5	19.4	17.3	16.9	16.2	
RoCE (%)	25.1	27.6	26.0	23.2	20.1	
RoE (%)	19.8	21.2	20.0	17.7	15.4	

Source: Company, ICICI Direct Research

Exhibit 1: Financial Performance

(Year-end March)	FY15	FY16	FY17	FY18	FY19
P&L					
Revenues (₹ crore)	194.5	263.5	311.4	321.2	359.6
EBITDA (₹ crore)	137.8	188.5	214.6	218.5	231.4
EBITDA Margins (%)	70.9	71.5	68.9	68.0	64.4
Net Profit (₹ crore)	111.5	144.1	169.9	178.7	180.4
Balance Sheet					
Equity (₹ crore)	14.1	14.1	14.1	14.1	14.1
Net worth (₹ crore)	562.3	681.2	851.0	1,011.1	1,170.5
Debt (₹ crore)	-	-	-	-	-
Ratios					
RoNW (%)	19.8	21.2	20.0	17.7	15.4
RoCE (%)	25.1	27.6	26.0	23.2	20.1
P/B	6.7	5.6	4.4	3.7	3.2
P/E	33.9	26.2	22.3	21.2	21.0
Earnings per share (₹)	15.8	20.5	24.1	25.4	25.6
Dividend per share (₹)	1.5	2.0	2.6	3.2	3.3
EV/EBITDA (x)	26.5	19.4	17.3	16.9	16.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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