

Q4FY23 Result Update | Real Estate | 29 May 2023

## Nesco Ltd.

### Exhibitions return to normalcy & IT Park space near full capacity

Nesco Ltd (Nesco) progressed on its turnaround path in Q4FY23

Sales at Rs1,572 mn - up 72.7% YoY/ 10.1% QoQ

EBIDTA at Rs994 mn - up 59.0% YoY/ 21.4% QoQ

EBIDTA margin at 63.2% down 542bps YoY but up 588bps QoQ

PAT at Rs850 mn - up 58.6% YoY/ 21.2% QoQ

IT Park business delivered lower revenue with overall occupancy dropping to ~90% on account of vacancy created in IT-3. IT-4 continues to witness a steady uptick in occupiers' attendance. With sustained collections and steady improvement in occupancy, the office segment is well poised for growth. On a YoY basis, the continued momentum in the economy post pandemic demonstrated rising numbers in the exhibitions and events held at BEC albeit with moderate growth in revenue of Foods division. We retain our Buy rating on the stock with a TP of Rs770 (16.5x FY25 EPS).

#### IT Park Division

- Out of the aggregate ~1.75 mn sq ft, IT Park division's Q3FY23 occupancy of ~90% as one of the floors at IT-3 was vacated by an existing tenant.
- The Tower-2 plans are on track however regulatory approvals are bound to take some time, given the circumstances. It has applied to the state government for concessions in FSI premia, stamp duty, etc.
- Nesco is also progressing on creating newer spaces for restaurants, food court and a salon in IT-4.

#### Bombay Exhibition Centre (BEC)

- Revenue earned is from several exhibitions held during Q4FY23 including large ones such as clothing, gems and jewellery, etc.
- With the resilient economy post pandemic and Nesco's quality offerings that provide distinctive experience to the customers, management expects consistent growth in the exhibitions/ events held at BEC thereby accompanying growth of Foods division.

#### Valuation

- IT Park occupancy will be ~95% in FY24, while BEC is expected to continue to host large exhibitions in FY24.
- We expect BEC and Food divisions to earn revenue closer to pre-Covid levels attained in FY20 and Indabrador to maintain its existing performance.
- We are positive on NESCO and arrive at a target price of Rs770 based on 10x EV/EBITDA multiple to FY25 EBITDA + Cash, implying 16.5x P/E on FY25EPS. Buy.

Y/E Mar (Rs mn)	Q4FY23	Q4FY23	YoY (%)	Q3FY23	QoQ (%)
<b>Net sales</b>	<b>157.2</b>	<b>91.1</b>	<b>72.66%</b>	<b>142.8</b>	<b>10.08%</b>
Operating costs	57.9	28.6	102.46%	61.0	-5.09%
EBITDA	99.4	62.5	59.03%	81.9	21.38%
<b>EBITDA Margin (%)</b>	<b>63.2%</b>	<b>68.6%</b>	<b>(542) bps</b>	<b>57.3%</b>	<b>588 bps</b>
Depreciation and amortisation	9.2	8.0	15.86%	8.3	11.65%
Interest	1.6	2.5	-36.75%	2.8	-43.25%
Other income	20.5	12.0	70.86%	19.4	5.87%
<b>PBT</b>	<b>109.0</b>	<b>64.0</b>	<b>70.39%</b>	<b>90.1</b>	<b>20.96%</b>
Provision for tax	24.1	10.5	130.03%	20.1	20.04%
<b>PAT</b>	<b>85.1</b>	<b>53.6</b>	<b>58.62%</b>	<b>70.2</b>	<b>21.19%</b>

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	2,911	-32.6%	1,857	63.8%	1,725	-26.3%	24.5	11.9%	11.2%	24.9	18.8
FY22	3,374	15.9%	2,193	65.0%	1,895	9.9%	26.9	12.4%	11.0%	22.7	15.7
FY23	5,460	61.8%	3,487	63.9%	2,906	53.3%	41.2	15.9%	14.9%	14.8	9.0
FY24E	5,702	4.4%	4,009	70.3%	3,187	9.7%	45.2	15.1%	14.1%	13.5	8.1
FY25E	6,043	6.0%	4,143	68.6%	3,287	3.1%	46.7	13.6%	12.9%	13.1	7.9

Source: Company, EISEC Research Estimates



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Rating: Buy Upside/(Downside): 26.5%  
Current Price: 608.8 Target Price: 770

#### Market data

Bloomberg:	NSE IN
52-week H/L (Rs):	686/502
Mcap (Rs bn/USD bn):	42.9/0.5
Shares outstanding (mn):	70.5
Free float:	31.5%
Daily vol. (3mth Avg)	83 mn
Face Value (Rs):	2
Group:	BSE 500

Source: Bloomberg, EISEC Research

#### Shareholding pattern (%)

	Mar-23	Dec-22	Sep-22	Jun-22
Promoter	68.5	68.5	68.5	68.5
FIIIs	2.3	2.4	2.1	2.0
DIIIs	3.9	4.0	4.3	4.7
Public/others	25.3	25.1	25.1	24.8

Source: BSE

#### Price performance (%)\*

YE Mar (R)	1M	3M	6M	12M
BSE-500	3.1	7.1	-0.9	12.9
NESCO	11.8	12.6	-2.1	13.2

\*as on 26 May 2023; Source: Ace Equity, EISEC Research

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## Quarterly Highlights

### Segmental Revenue highlights

- **IT Park:** Revenue increased by 2.7% YoY but dropped 6.8% QoQ to Rs.723 mn. As the occupancy levels dropped to ~90%, segment margins also dropped to 79.8%. However, the management believes that average occupancy will be restored to ~95% by Q2FY24.
- **BEC:** Revenue increased by 895.2% YoY/ 26.0% QoQ to Rs.479 mn – similar to pre-Covid-19 levels. Segment profit margin improved to 73.1%.
- **Indabrator:** Indabrator Revenue improved by 31.6% YoY/ 20.1% QoQ to Rs.162 mn. EBIT margin was 4.5% (up by 107 bps YoY but down by 1484 bps QoQ).
- **Food:** Food division business has attained pre-covid level revenue on account of restaurants & outlets and exhibitions/ events happening in BEC division. Revenue increased by 503.3% YoY / 51.9% QoQ to Rs.207 mn. EBIT margin was 23.6% (up by 3,910 bps YoY / 1,336 bps QoQ).

### Outlook

- **IT Park:** The existing capacity comprises 0.66 mn sq ft IT Bldg 3 and 1.12 mn sq ft IT Bldg 4. ~94.8% in FY24/ ~97.0% in FY25 is expected. Nesco is expected to incur capex of Rs.3.0-3.5 bn in FY 24 towards the proposed IT-2.
- **BEC:** Nesco will continue to host large exhibitions like pre-Covid times. Nesco is expected to incur capex of Rs.1.0-1.25 bn in FY24 towards the new exhibition Hall 6.
- **Food:** Food business, which has hitherto been dependent on exhibitions, is expected to perform better due to hosting of more exhibitions. Nesco has recently introduced a new sub-division named 'Restaurant and Outlets', which has inaugurated four new restaurants and a food court in IT-4. Nesco has also partnered with various reputed brands in their food courts in exhibitions. This is expected to earn revenue of ~Rs.525 mn in FY24/ ~Rs.595 mn in FY25.

## Quarterly financials, operating metrics and key performance indicators

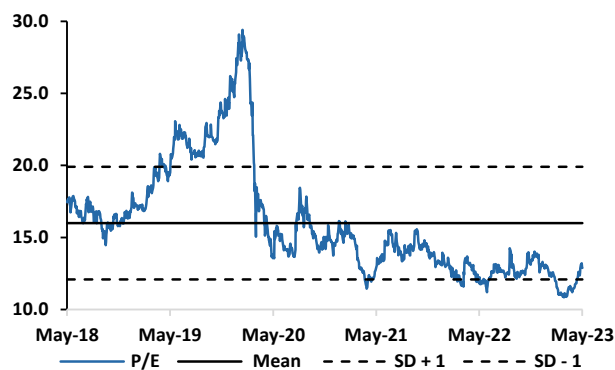
### Quarterly Financials

Y/E March (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Net Sales</b>	<b>727</b>	<b>808</b>	<b>934</b>	<b>911</b>	<b>1031</b>	<b>1429</b>	<b>1428</b>	<b>1572</b>
Raw Materials	33	60	86	78	59	66	95	138
Employee Costs	34	28	41	30	42	42	53	59
Other Expenditure	202	216	197	178	264	310	462	382
<b>EBITDA</b>	<b>458</b>	<b>503</b>	<b>609</b>	<b>625</b>	<b>665</b>	<b>1010</b>	<b>819</b>	<b>994</b>
Depreciation	65	71	67	80	77	76	83	92
Interest	19	23	25	25	32	46	28	16
Other Income	131	98	96	120	78	156	194	205
<b>PBT</b>	<b>505</b>	<b>506</b>	<b>613</b>	<b>640</b>	<b>634</b>	<b>1044</b>	<b>901</b>	<b>1090</b>
Tax	81	67	120	105	97	225	201	241
Tax rate (%)	16.1%	13.2%	19.6%	16.4%	15.3%	21.6%	22.3%	22.1%
<b>Reported PAT</b>	<b>424</b>	<b>440</b>	<b>493</b>	<b>535</b>	<b>537</b>	<b>819</b>	<b>701</b>	<b>850</b>
<b>YoY Growth (%)</b>								
Revenue	4.8%	25.8%	13.2%	21.3%	41.8%	76.9%	53.0%	72.7%
EBITDA	-7.9%	41.2%	15.3%	31.4%	45.3%	100.9%	34.3%	59.0%
PAT	-17.5%	35.4%	0.8%	34.7%	26.8%	86.2%	42.1%	58.7%
<b>QoQ Growth (%)</b>								
Revenue	-3.2%	11.1%	15.6%	-2.5%	13.2%	38.6%	0.0%	10.1%
EBITDA	-3.7%	9.8%	21.2%	2.5%	6.4%	51.9%	-18.9%	21.4%
Adj. PAT	6.6%	3.8%	12.1%	8.6%	0.3%	52.5%	-14.4%	21.2%
<b>Margin (%)</b>								
EBITDA	63.0%	62.2%	65.3%	68.6%	64.5%	70.7%	57.3%	63.2%
PAT	58.3%	54.5%	52.8%	58.8%	52.1%	57.3%	49.1%	54.0%

Source: Company, EISEC Research

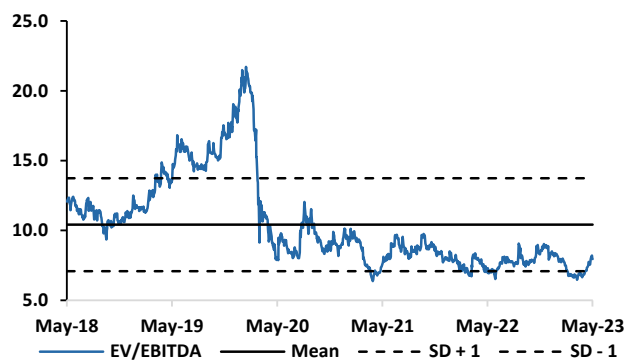
### Valuation

Fig 1: 2-year forward P/E chart



Source: AceEquity, EISEC Research

Fig 2: 2-year forward EV/EBITDA chart



Source: AceEquity, EISEC Research

## Financial Statements

Income Statement	FY21	FY22	FY23	FY24E	FY25E
<b>YE March (Rs mn)</b>					
<b>Revenues</b>	<b>2,911</b>	<b>3,374</b>	<b>5,460</b>	<b>5,702</b>	<b>6,043</b>
% Growth	-32.6%	15.9%	61.8%	4.4%	6.0%
Raw Materials	170	253	359	234	426
% of sales	5.8%	7.5%	6.6%	4.1%	7.1%
Personnel	160	134	196	219	222
% of sales	5.5%	4.0%	3.6%	3.8%	3.7%
Mfg & Other Exp.	724	793	1,418	1,240	1,252
% of sales	24.9%	23.5%	26.0%	21.7%	20.7%
<b>EBITDA</b>	<b>1,857</b>	<b>2,193</b>	<b>3,487</b>	<b>4,009</b>	<b>4,143</b>
<b>EBITDA Margin (%)</b>	<b>63.8%</b>	<b>65.0%</b>	<b>63.9%</b>	<b>70.3%</b>	<b>68.6%</b>
Depreciation	257	283	328	286	286
<b>EBIT</b>	<b>1,599</b>	<b>1,910</b>	<b>3,159</b>	<b>3,723</b>	<b>3,856</b>
Finance cost	82	92	122	64	64
PBT From Operations	<b>1,517</b>	<b>1,818</b>	<b>3,037</b>	<b>3,659</b>	<b>3,792</b>
Other Income	646	450	633	602	602
Exceptional Item	0	0	0	0	0
<b>PBT</b>	<b>2,163</b>	<b>2,268</b>	<b>3,670</b>	<b>4,261</b>	<b>4,394</b>
Tax-Total	439	373	763	1,074	1,107
Tax Rate (%) - Total	20.3%	16.4%	20.8%	25.2%	25.2%
<b>Reported PAT</b>	<b>1,725</b>	<b>1,895</b>	<b>2,906</b>	<b>3,187</b>	<b>3,287</b>

Source: Company, EISEC Research Estimates

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
<b>YE March</b>					
<b>Growth Ratios (%)</b>					
Net Sales	-32.6%	15.9%	61.8%	4.4%	6.0%
EBITDA	-33.3%	18.1%	59.0%	15.0%	3.3%
Adjusted Net Profit	-26.3%	9.9%	53.3%	9.7%	3.1%
<b>Margin Ratio (%)</b>					
EBITDA Margin	63.8%	65.0%	63.9%	70.3%	68.6%
EBIT Margin	54.9%	56.6%	57.9%	65.3%	63.8%
PBT margins	74.3%	67.2%	67.2%	74.7%	72.7%
PAT Margin	59.2%	56.2%	53.2%	55.9%	54.4%
<b>Return Ratios</b>					
ROE	11.9%	12.4%	15.9%	15.1%	13.6%
ROCE	11.2%	11.0%	14.9%	14.1%	12.9%
ROIC	15.3%	16.7%	24.9%	23.7%	18.5%
<b>Turnover Ratios (days)</b>					
Gross Block Turnover (x)	0.4	0.4	0.6	0.5	0.4
Inventory	9	9	9	9	9
Debtors	37	37	37	37	37
Creditors	160	130	90	90	90
Cash Conversion Cycle	-114	-84	-44	-44	-44
<b>Solvency ratio (x)</b>					
Debt-equity	0	0	0	0	0
Net Debt-Equity	(0.5)	(0.5)	(0.6)	(0.5)	(0.4)
Gross Debt/EBITDA	0	0	0	0	0
Current ratio	1.6	2.4	1.8	2.0	2.1
Interest coverage ratio	27.3	NA	NA	NA	NA
<b>Dividend</b>					
DPS (Rs.)	1.8	2.0	3.1	3.4	3.5
Dividend Yield (%)	0.3%	0.3%	0.5%	0.6%	0.6%
Dividend Payout (%)	7.5%	7.5%	7.5%	7.5%	7.5%
<b>Per share (Rs.)</b>					
Basic EPS (reported)	24.5	26.9	41.2	45.2	46.7
FDEPS (Adjusted)	24.5	26.9	41.2	45.2	46.7
CEPS	28.1	30.9	45.9	49.3	50.7
BV	217.0	241.0	278.8	320.7	363.8
<b>Valuation</b>					
P/E	24.9	22.6	14.8	13.5	13.1
P/BV	2.8	2.5	2.2	1.9	1.7
EV/EBITDA	18.7	15.7	8.9	8.1	7.9
EV/Sales	11.9	10.2	5.7	5.7	5.4

Source: Company, EISEC Research Estimat

Balance Sheet	FY21	FY22	FY23	FY24E	FY25E
<b>YE March (Rs mn)</b>					
<b>Sources of funds</b>					
Capital	141	141	141	141	141
Reserves & Surplus	15,151	16,836	19,505	22,453	25,494
<b>Shareholders' Funds</b>	<b>15,292</b>	<b>16,977</b>	<b>19,646</b>	<b>22,594</b>	<b>25,635</b>
Minority Interest	0	0	0	0	0
Total Loan Funds	0	0	0	0	0
Deferred tax liabilities	359	314	249	249	249
Other liabilities	1,287	1,610	1,547	1,547	1,547
<b>Total Liabilities</b>	<b>16,938</b>	<b>18,901</b>	<b>21,442</b>	<b>24,390</b>	<b>27,431</b>
<b>Application of funds</b>					
Gross Block	8,438	9,595	9,499	11,606	14,806
Accumulated Dep.	847	1,130	1,458	1,745	2,031
Net Block	7,590	8,465	8,041	9,861	12,775
Capital WIP	507	824	857	3,000	3,500
<b>Net Assets</b>	<b>8,097</b>	<b>9,288</b>	<b>8,898</b>	<b>12,861</b>	<b>16,275</b>
<b>Investments</b>					
Inventories	74	75	117	141	149
Sundry Debtors	296	186	226	580	614
Cash & Bank Balances	51	53	131	568	637
Loans and Advances	0	0	0	0	0
Other current Assets	1,599	1,653	1,645	1,718	1,821
<b>Total Current Assets</b>	<b>2,021</b>	<b>1,967</b>	<b>2,119</b>	<b>3,006</b>	<b>3,221</b>
<b>Sundry Creditors</b>	<b>1,276</b>	<b>759</b>	<b>1,117</b>	<b>1,406</b>	<b>1,490</b>
Provisions	4	58	68	71	76
<b>Total Current Liabilities</b>	<b>1,280</b>	<b>817</b>	<b>1,185</b>	<b>1,477</b>	<b>1,566</b>
<b>Net Current Assets</b>	<b>741</b>	<b>1,150</b>	<b>934</b>	<b>1,529</b>	<b>1,656</b>
<b>Total Assets</b>	<b>16,938</b>	<b>18,901</b>	<b>21,442</b>	<b>24,390</b>	<b>27,431</b>

Source: Company, EISEC Research Estimates

Cash Flow	FY21	FY22	FY23	FY24E	FY25E
<b>YE March (Rs mn)</b>					
<b>Operating profit before WC changes</b>					
	<b>2,941</b>	<b>1,597</b>	<b>2,907</b>	<b>2,832</b>	<b>2,938</b>
Net chg. in working capital	-1,643	35	59	-157	-58
<b>Cash flow from operating activities (a)</b>	<b>1,298</b>	<b>1,632</b>	<b>2,966</b>	<b>2,675</b>	<b>2,880</b>
Capital expenditure	-576	-1,487	-124	-4,250	-3,700
Free Cash Flow	721	145	2,842	-1,575	-820
<b>Cash flow from investing activities (b)</b>	<b>-1,325</b>	<b>-1,424</b>	<b>-2,652</b>	<b>-1,935</b>	<b>-2,501</b>
<b>Cash flow from financing activities (c)</b>	<b>-2</b>	<b>-207</b>	<b>-237</b>	<b>-303</b>	<b>-310</b>
<b>Net chg. in cash (a+b+c)</b>	<b>-29</b>	<b>2</b>	<b>78</b>	<b>437</b>	<b>69</b>

Source: Company, EISEC Research Estimates

Segment Revenue	FY21	FY22	FY23	FY24E	FY25E
<b>YE March (Rs mn)</b>					
IT Park	2,461	2,642	2,950	3,037	777
BEC	60	162	1,558	1,750	350
Indabrator	261	457	465	390	90
Foods	130	114	486	525	70
<b>Total</b>	<b>2,911</b>	<b>3,374</b>	<b>5,460</b>	<b>5,702</b>	<b>1,287</b>

Source: Company, EISEC Research Estimates

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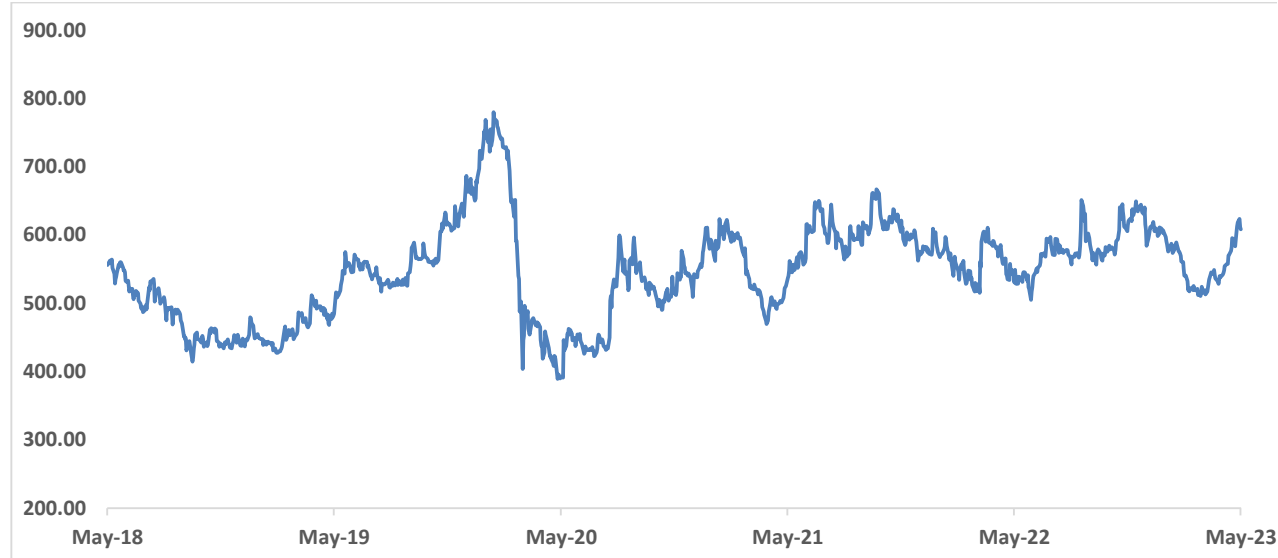
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#### NESCO Ltd.



Source: ACE Equity, EISEC Research

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