



COMPANY NAME	: Nesco Limited.
BSE Code	: 505355
Time Duration	: 1 year
CMF	: ₹606 (as on 18 Jan., 2018)
Target Price	: ₹790

The Mid Bridge for the month of January 2018 is Nesco Limited. Company has diversified operations across four segments namely; IT parks, Exhibition centres, Indabrator and Hospitality centre. The revenue mix of the company includes IT Park - 40.38%, Exhibition centres - 37.77%, Indabrator - 9.64% and remaining 12.23% from investments in Mutual funds and securities. Nesco has a unique and strong business model led by huge land bank at a prime location which has by now become a sweet spot for the top companies to carry out their commercial activities. Company has been growing at an exceptional rate with its top-line getting doubled in just 4 years. It has consistently earned high profit margins of more than 50% over the years. It is a zero-debt company and maintains its working capital so efficiently that its entire capex is met through the internal accruals. All the segments are performing very well and are growing on a consistent basis. On the top of this, company is trading at attractive valuations.

Almost 78% of the revenue is generated from rental income from leased property of IT parks and Exhibition centres. The company owns 70 acres land at Goregaon in Mumbai, adjacent to Western Express Highway on which its IT parks and Exhibition centres are located. Over next 5 years, company has planned a capex of Rs 1,500 crore to carry out its extensive expansion in IT parks and exhibition centres.

**Extensive expansion of IT park to trigger top-line**

Currently, company has 3 IT parks spread over 9,00,000 sq.ft. area of the 70 acres land. Its 4<sup>th</sup> IT park is under construction which is spread over an area of 17,00,000 sq.ft. of the 70 acres land. This building is expected to get completed by December 2018 and will be operational from FY19. All the 3 IT parks are fully occupied by top clients such as TCS, HSBC, KPMG, Blackrock and many more. In FY17, the company earned lease income of Rs 141.9 crore from these 3 IT parks. Over FY14-17 the revenue from IT parks has grown at a CAGR of ~44%. By end of FY17, company had spent ~Rs 256 crore towards IT park 4 and the total capex is expected to be around Rs 600 crore. Rent from buildings 1 & 2 is expected to be flattish as the number tenants are less and lease term is of 3 years. However, rent from 3rd building will increase on the grounds of high commercial realty prices and growing demand from its multiple tenants. Once the 4th building

gets operational, the occupancy rate will increase gradually. We expect company's top-line will witness major turnaround going forward.

	Built-up Area	Leasable area	Tenants	Term lease
IT Park 1	9,00,000 sq.ft.	Btw 6,00,000-7,00,000 sq.ft.	2-3 tenants occupying both buildings	Renewable after 3 years
IT Park 2			Multiple tenants	No fixed lease term
IT Park 3				
IT Park 4	17,00,000 sq.ft.	2x of cumulative area of all 3 buildings = 12,00,000 sq.ft.	Under construction - operational by FY19	

**Expansion at Bombay Exhibition Centre**

The Bombay Exhibition Centre (BEC) is the second largest exhibition centre in India and the largest in Mumbai city. It is spread over 4,50,000 sq.ft. area of the 70 acres land owned by the company. It is situated in the prime area from where the domestic & international airports are 7-8 kms away, Jogeshwari & Oshiwara railways stations are within 0.3-1 km range and other commercial areas like Oberoi and Inorbit malls are nearby. This centre conducts exhibitions for domestic and international exhibitors. Till date, it has hosted more than 500 national and international exhibitions and events. In FY17, company earned Rs 132.76 crore from this segment which grew by ~19% from FY16. Over FY14-17 the revenue from BEC has grown at a CAGR of ~12%. Company collects advance from the exhibitors in instalments which leads to negative working capital nature for the company. BEC is planning to expand the convention centre and auditorium centre with capex of Rs 700 crore. Its construction is expected to begin from mid FY19. This will enable NESCO to generate additional revenue post this expansion.

**Growth in Indabrator & hospitality segments**

Indabrator is the manufacturing segment which provides services to forging plants, automotive industries, Indian railways, defence organisations, heavy engineering industries, ship-building companies, and chemical & petrochemical industries. Company has contracts with top companies like BHEL, BEML. Over FY15-17 the revenue from this segment has grown at a CAGR of

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~38% and in FY17 it generated revenue of Rs 33.9 crore. It has recently completed with its expansion of its plant in Gujarat. The outlook of these industries is positive and strong in the long run.

Considering the various Government initiatives and rate of development in India, improvement in these industries will trigger the demand for the indabrator segment.

Company has two food courts and provide food services by including national and international brands. It has a huge kitchen facility spread over Rs 24,000 sq.ft. which has production capacity of 15000 meals per day. With completion of expansion plans of IT parks and exhibition centres, the number of meals are likely to increase as the target audience is exhibition organizers, exhibitors, visitors and employees working in Nesco IT Park.

#### Financial Performance

In past 5 years, company's revenue has almost doubled from Rs 143.46 cr in FY13 to Rs 305.75 in FY17. This shows that the top-line has grown at a CAGR of 23.81% over FY15-17. The company maintains high EBITDA margin which was 72.15% in FY16 and 69.6% in FY17. Its PAT has grown at a CAGR of 33.7% over FY15-17. It had high PAT margin ranging between 54-56% during FY15-17. In FY17, the PAT margin stood at 54.9%.

Nesco has higher current liabilities than its current asset, which leads to negative working capital. Current liabilities are higher as it receives advances from its exhibition organizer in instalments. These advances act as interest free loan for the company and is utilized to meet its operating expenses.

Company is totally debt-free. Its planning and execution regarding expansion is accurate which enables it to finance its funds through internal accruals. Currently too, company has incurred capex for IT park and construction of convention centre through its internal accruals. Nesco consistently has been paying dividend to shareholders from past few years. For FY17, it paid final dividend (110%) of Rs 11 per share.

#### Valuation

Company is trading at TTM P/E of 23.6x with TTM EPS of Rs 25.65. For FY17, it has delivered ROE and ROCE of 22.31% and 32.75%. In FY17, it delivered ROA of 18.1% which is comparatively decent considering its heavy asset based model. Considering its robust financial growth, exceptional high margins, extensive expansion of IT parks and exhibition centre and growing demand for indabrator and hospitality segments, we see the company is strong and its outlook is too positive going in the long run. We expect an upside of 30% with target price of Rs 790 for a period of one year.

#### Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	305.75	261.26	194.45	161.11	143.46
Total Income	348.73	294.16	222.72	181.42	162.77
Total Expenditure	91.84	72.77	56.11	53.39	42.55
PBIDT	256.89	221.39	166.61	128.03	120.22
PAT	169.42	144.14	111.63	81.02	81.69
Dividend %	110.00	85.00	65.00	50.00	35.00
Adj. EPS(Rs)	24.05	20.46	15.84	11.50	11.59

#### Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201709	201706	Q on Q Var%	201609	Y on Y Var%
Net Sales	82.56	65.68	25.69	77.45	6.59
Total Expenditure	23.64	20.46	15.53	16.16	46.28
PBIDT (Excl OI)	58.92	45.22	30.28	61.29	-3.87
PAT	48.39	41.69	16.07	47.61	1.66
PBIDTM% (Excl OI)	71.37	68.85	3.66	79.14	-9.82
PBIDTM%	83.49	87.65	-4.75	97.72	-14.56
PATM%	58.62	63.48	-7.66	61.46	-4.62
Adj. EPS(Rs)	6.87	5.92	16.05	6.76	1.63

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