

November 22, 2017

NESCO Ltd (NESCO)

₹ 512

Outlines capex for next leg of growth...

We met the management of NESCO Ltd (NESCO). Key takeaways are: -i) NESCO is focused on a steady & planned expansion of its key businesses to capture timely opportunities in real estate industry, ii) made an outlay of capex of ₹ 1500 crore (already spent ₹ 270 crore) to support its expansion plans to be funded largely via internal accruals, iii) plans to double IT park capacity by setting up IT Park 4 with leasable area of 1.2 msf (mn sq ft) and iv) set up convention and auditorium centre, with total development of 0.8 msf. We like NESCO given the prudent management pedigree, its focus on steady & planned expansion across verticals, lean balance sheet and a niche highly profitable business model.

IT park leasable area to double by FY19E...

Currently, NESCO has three IT parks at Goregaon with total leasable area of 0.93 msf. The company generated lease income of ₹ 141.9 crore implying lease rate of ₹ 116 per sq ft per month (after considering 99% occupancy and CAM charges @10%). NESCO's IT parks are home to marquee clienteles like TCS, HSBC, KPMG, PWC, etc. The company is doubling its leasable space by setting up IT park 4 with leasable area of 1.2 msf (developable area: 1.7 msf) at an estimated capex of ₹ 600 crore. The construction work is in full swing. The management expects to complete construction by December, 2018. Post this expansion, total IT park leasable area would increase to 2.13 msf. The pre-selling activity for new IT park has already started. We expect the lease rentals could be in the range of ₹115-₹120 per sq ft per month for IT park 4. IT park revenues have grown robustly at 43.7% CAGR in FY14-17 to ₹ 141.9 crore. The new IT park will significantly boost IT park revenues over the next few years.

Planning to set up convention centre at BEC...

Bombay Exhibition Centre (BEC) is the largest exhibition centre in Mumbai and is a part of NESCO's 70-acre land bank on Western Express Highway. Over the years, it has become a permanent venue for conventions, exhibitions & trade fairs in India. Currently, NESCO has exhibition centre space measuring 0.6 msf. It plans to expand this by constructing a convention and auditorium centre with total development of 0.8 msf in phase-I entailing capex of ₹ 700 crore. The construction for the same is expected to start after a year. BEC revenues have grown steadily at 11.8% CAGR over FY14-17 to ₹ 132.8 crore.

Planned expansion to reap benefits, going ahead...

At the CMP, NESCO is trading at 21x FY17 P/E. We like the company given the prudent management pedigree, steady & planned expansion across verticals funded through internal accruals, lean balance sheet and a niche highly profitable business model.

Exhibit 1: Financial Performance

(₹ Crore)	FY13	FY14	FY15	FY16	FY17
Net Sales (₹ crore)	143.5	161.1	194.5	263.5	311.4
EBITDA (₹ crore)	100.9	107.7	137.8	188.5	214.6
Net Profit (₹ crore)	81.7	81.0	111.5	144.1	169.9
EPS (₹)	11.6	11.5	15.8	20.5	24.1
P/E (x)	44.2	44.5	32.4	25.0	21.2
Price / Book (x)	9.9	8.2	6.4	5.3	4.2
EV/EBITDA (x)	33.2	30.0	25.3	18.5	16.4
RoCE (%)	29.2	23.3	25.1	27.6	26.0
RoE (%)	22.3	18.5	19.8	21.2	20.0

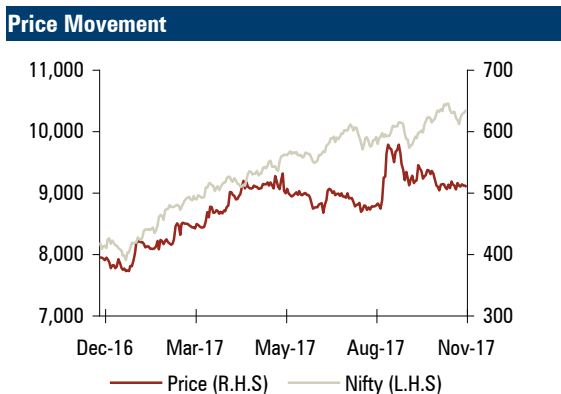
Source: Company, ICICIdirect.com Research

Rating Matrix		
Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key Financials				
₹ Crore	FY14	FY15	FY16	FY17
Net Sales	161.1	194.5	263.5	311.4
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Valuation Summary				
(x)	FY14	FY15	FY16	FY17
P/E	44.5	32.4	25.0	21.2
EV / EBITDA	8.2	6.4	5.3	4.2
P/BV	8.2	6.4	5.3	4.2
RoNW (%)	18.5	19.8	21.2	20.0
RoCE (%)	23.3	25.1	27.6	26.0

Stock Data	
Particular	Amount
Market Capitalization	3,607.2
Total Debt	0.0
Cash & equivalent	487.5
EV	₹ 3120 Crore
52 week H/L (₹)	591 / 370
Equity capital	14.1
Face value	₹ 2



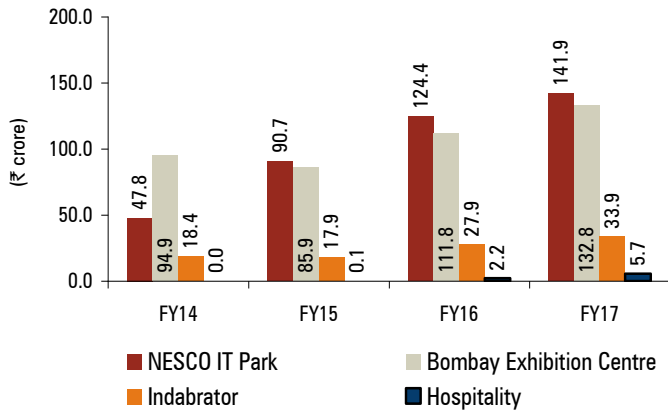
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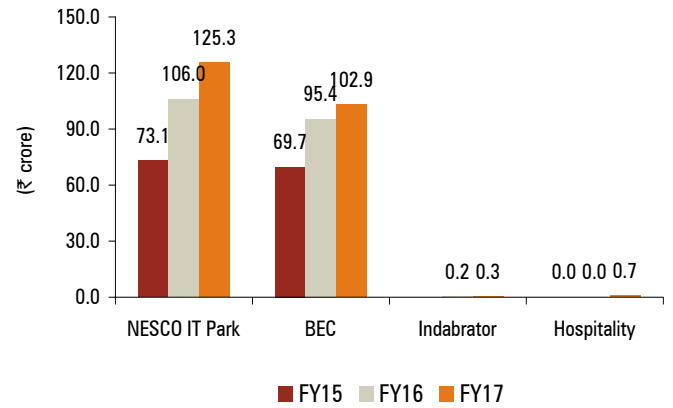
Key Metrics

Exhibit 2: Segmental revenue trend...



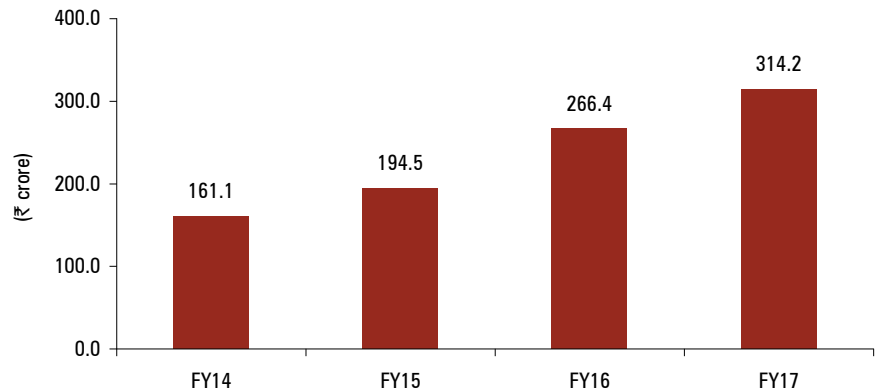
Source: Company, ICICIdirect.com, Research

Exhibit 3: Segmental EBIT trend...



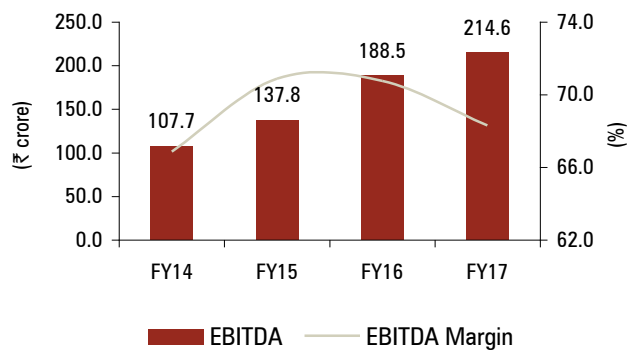
Source: Company, ICICIdirect.com, Research

Exhibit 4: Revenue trend...



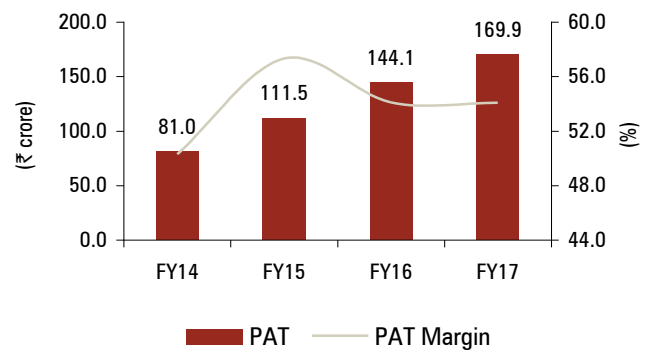
Source: Company, ICICIdirect.com Research

Exhibit 5: EBITDA & EBITDA margin trend...



Source: Company, ICICIdirect.com, Research

Exhibit 6: PAT & PAT margin trend...



Source: Company, ICICIdirect.com, Research

Financial summary

Profit and loss statement		₹ Crore			
(₹ Crore)	FY14	FY15	FY16	FY17	
Net Sales	161.1	194.5	263.5	311.4	
Growth (%)		20.7	35.5	18.2	
Raw Material Cost	8.7	9.1	12.9	18.0	
Employee Cost	6.8	7.2	9.3	13.6	
Other Expenditure	37.9	40.3	52.8	65.1	
Total Operating Expenditure	53.4	56.7	75.0	96.8	
EBITDA	107.7	137.8	188.5	214.6	
Growth (%)		28.0	36.7	13.9	
Other income	20.3	28.6	32.9	43.0	
Depreciation	11.0	6.7	6.7	8.1	
EBIT	117.0	159.8	214.7	249.5	
Interest	0.1	0.1	4.0	5.0	
PBT	116.9	159.6	210.7	244.4	
Tax	35.9	48.1	66.6	74.5	
Rep. PAT	81.0	111.5	144.1	169.9	
Exceptional items	0.0	0.0	0.0	0.0	
Adj. Net Profit	81.0	111.5	144.1	169.9	
Growth (%)		37.6	29.3	17.9	
EPS (₹)	11.5	15.8	20.5	24.1	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(₹ Crore)	FY14	FY15	FY16	FY17	
Liabilities					
Equity capital	14.1	14.1	14.1	14.1	
Reserves & Surplus	424.7	548.2	667.1	836.9	
Networth	438.8	562.3	681.2	851.0	
Loan Funds	0.0	0.0	0.0	0.0	
Deferred Tax liability	2.1	8.5	16.3	27.3	
Other financial liabilities	60.8	66.2	79.5	79.8	
Total Liabilities	501.7	637.1	777.0	958.1	
Assets					
Net Block	159.8	159.2	164.8	187.8	
Capital WIP	4.8	99.8	143.4	262.4	
Non-current Investments	0.0	281.2	323.6	409.9	
Other non-current assets	0.0	0.8	44.7	49.9	
Loans	0.0	1.0	2.2	2.8	
Inventories	4.4	7.7	11.0	13.4	
Trade Receivables	11.2	10.9	14.6	12.1	
Cash & Bank Balances	4.4	4.6	6.5	5.7	
Loans & Advances	7.1	0.0	0.0	0.0	
Other current assets	0.5	8.6	11.0	17.5	
Total current assets	395.9	152.2	161.8	120.6	
Total Current liabilities	58.8	57.1	63.6	75.1	
Net Current Assets	337.1	95.1	98.2	45.5	
Total Assets	501.7	637.0	777.0	958.1	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(₹ Crore)	FY14	FY15	FY16	FY17	
₹ crore					
Profit after Tax	81.0	111.5	144.1	169.9	
Depreciation	11.0	6.7	6.7	8.1	
Interest	-0.1	-0.1	-3.1	-3.0	
Taxes	35.9	48.1	66.6	74.5	
Others	-14.6	-24.1	-26.7	-38.2	
Cash Flow before wc changes	113.2	142.1	187.7	211.4	
Net Increase in Current Assets	0.9	-5.3	-11.2	-2.1	
Net Increase in Current Liabilities	39.0	13.8	21.4	11.7	
Net cash flow from operating activities	117.1	102.6	136.6	152.6	
Purchase of Fixed Assets	-13.2	-101.1	-56.1	-150.0	
Purchase of Investment	-110.0	-15.4	-182.1	-152.8	
Sale of Investments	16.5	25.3	168.9	152.0	
Net Cash flow from Investing Activities	-106.6	-91.1	-110.1	-153.0	
Interest paid	-0.1	-0.1	-0.1	-0.1	
Proceeds from Long Term Borrowings	0.0	0.0	0.0	0.0	
Net Cash flow from Financing Activities	-8.4	-10.8	-25.3	-0.1	
Net Cash flow	2.2	0.6	1.3	-0.5	
Cash and Cash Equivalent at the beginning	2.1	4.4	3.8	5.0	
Cash and cash equivalents at the end of	4.4	5.0	5.0	4.5	

Source: Company, ICICIdirect.com Research

Key ratios		FY14				FY15				FY16				FY17											
Per share data (₹)		FY14				FY15				FY16				FY17											
Reported EPS		11.5	15.8	20.5	24.1	13.1	16.8	21.4	25.3	62.3	79.8	96.7	120.8	22.9	27.6	37.4	44.2								
Cash EPS		13.1	16.8	21.4	25.3	62.3	79.8	96.7	120.8	0.6	0.7	0.9	0.8	0.6	0.7	0.9	0.8								
BV per share		62.3	79.8	96.7	120.8	0.6	0.7	0.9	0.8	Operating Ratios (%)															
Revenue per share		22.9	27.6	37.4	44.2	EBITDA Margin								66.9	70.9	71.5	68.9								
Cash Per Share		0.6	0.7	0.9	0.8	PBT / Net Sales								72.6	82.1	80.0	78.5								
Operating Ratios (%)		PAT Margin								50.3	57.3	54.7	54.6	Inventory days								10.0	14.5	15.3	15.7
Return Ratios (%)		RoE								18.5	19.8	21.2	20.0	Debtor days								25.3	20.4	20.3	14.2
Valuation Ratios (x)		RoCE								23.3	25.1	27.6	26.0	Creditor days								16.9	9.8	13.0	26.8
Solvency Ratios (x)		RoIC								77.8	31.8	35.8	33.4	P/E								44.5	32.4	25.0	21.2
Debt / EBITDA		EV / EBITDA								30.0	25.3	18.5	16.4	EV / Net Sales								20.1	17.9	13.2	11.3
Net Debt / Equity		Price to Book Value								8.2	6.4	5.3	4.2	Debt / EBITDA								0.0	0.0	0.0	0.0
		Net Debt / Equity								-0.8	-0.2	-0.2	-0.1												

Source: Company, ICICIdirect.com Research

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