

# NESCO

19 March 2021

Reuters: NSEN.NS; Bloomberg: NSE IN

## No visibility on full-fledged commencement of BEC operations

We recently had an interaction with Mr. Dipesh Singhania, CFO of NESCO Ltd to discuss the current outlook for various business segments and the future plans. Highlighted below are certain key takeaways from our discussion:

### Updates regarding NESCO IT Park:

**Rental collections from the tenants to stabilize by March 2021:** The company had agreed to an extended credit period of 3-4 months for rent payments for some tenants in the earlier months of the lockdown. During normal times, the payments were made by the tenants within 10 days of the month-end. Currently, the rent collection from the IT Park remains outstanding for ~18-20 days. The company expects the rent collection cashflows to stabilize by end-March 2021.

**Occupancy in the IT Park declines on YoY basis:** Occupancy in Tower 3 (0.67msf) has declined from ~100% in early April' 2020 to ~90% currently as two tenants have taken up additional space besides moving from Tower 3 to Tower 4 (1.20msf). The company has not been able to lease out the space vacated by the tenants upgrading to Tower 4.

Occupancy in Tower 4 has declined to ~72% as WeWork (an existing tenant) has surrendered ~90,000 sq. ft. of area because of the hardships experienced by it. As per our earlier discussions with the management, WeWork was occupying ~0.2msf area in Tower 4. WeWork has surrendered 1 out of 3 units occupied by it. The company has recently been able to release 1 unit at Rs150/sq. ft./month. Thus, out of the 33 units in Tower 4, 31 units have been leased out. Out of the 31 units leased, 30 units are cashflow generating while the one unit recently leased is in the rent-free period.

**Pressure on rentals and leasing activities:** Mr. Singhania highlighted that there was no leasing activity during the year except for the recently released 1 unit in Tower 4. The unit was leased out at a rental of Rs150/sq. ft./month, which was also the rent the company was able to fetch for fresh leasing last year. While the asking rent has not declined, there is no increase in the rent either on YoY basis.

**Capex plans for IT Tower 2 (~2.6mn sq. ft.) and a 300-room 4 star hotel (~0.3mn sq. ft.) moving slow:** The management mentioned that the plan for the construction of multi-purpose commercial and hospitality assets (~4mn sq. ft. structure with ~2.6mn sq. ft. of commercial space, ~0.3mn sq. ft. of a 4-star business category hotel with 300 rooms and ~1.1mn sq. ft. of F&B and common area) in place of the existing IT Building 2 (0.13mn sq. ft.) is still in place.

The original budget for the multi-purpose assets was Rs18,000mn (Rs12,000mn for the commercial building and hotel and Rs6,000mn for municipal fees). The management is aiming to get the approvals before 31st December, 2021 to avail the benefit of 50% discount on premium. If the management is able to avail discounts in the municipal fees, the original budget can be brought down. This is expected to be funded through internal accruals. The management highlighted that the monthly run-rate for rentals from the IT Park is ~Rs200mn.

**Status of contracted lease escalations and renewals:** The management stated that there was only one contracted lease escalation in FY21 and that was honored by the tenant. The management highlighted that it has 2 contracted lease escalations due in Sept 2021 and expects it to be honored. The contract of one tenant coming for renewal in FY22 is also expected to go through.

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	3,609	4,317	2,923	4,207	5,022
YoY (%)	12.4	19.6	(32.3)	43.9	19.4
EBITDA	2,328	2,782	1,747	2,662	3,238
EBITDA Margin (%)	64.5	64.4	59.8	63.3	64.5
PAT	1,804	2,339	1,270	1,970	2,417
YoY (%)	1.0	29.6	(45.7)	55.1	22.7
EPS (Rs)	25.6	33.2	18.0	28.0	34.3
RoE (%)	15.4	17.2	8.6	11.9	12.9
EV/EBITDA (x)	21.9	14.4	11.8	21.9	14.4
P/E (x)	30.1	19.4	15.8	30.1	19.4

Source: Company, Nirmal Bang Institutional Equities Research

## BUY

Sector: Real Estate

CMP: Rs543

Target Price: Rs808

Upside: 49%

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### Key Data

Current Shares O/S (mn)	70.5
Mkt Cap (Rsbn/US\$m)	38.2/527.2
52 Wk H / L (Rs)	639/380
Daily Vol. (3M NSE Avg.)	133,201

### Price Performance (%)

	1 M	6 M	1 Yr
NESCO	(9.5)	(8.4)	9.2
Nifty Index	(2.8)	26.5	76.2

Source: Bloomberg

## Updates regarding the Bombay Exhibition Centre (BEC):

**MCGM vacated ~30% of the BEC area occupied by it:** BEC has been converted into a COVID care center by the Municipal Corporation of Greater Mumbai (MCGM). Out of the 5 halls (~0.62msf) in BEC taken up by the MCGM, hall 1, which is the largest hall (aggregating to ~30% of the capacity) has been vacated by them and permissions for conducting exhibitions have been granted. Out of the remaining 4 halls occupied by the MCGM, three halls are used by the MCGM as COVID care centers and one hall is being used as vaccination facility. The management does not have any visibility about the time period for which the BEC facility will be occupied by the MCGM. As per the management, the company has not raised any invoices to the MCGM for the use of BEC halls. However, the MCGM based on its internal calculations has paid ~Rs150mn.

**Plans for expansion of BEC in place:** The company has temporarily converted the legacy IT building 1 (~0.13msf) to conduct exhibitions. The company was already in the process of converting the legacy building 1 into BEC facility of 0.15msf. Intimation of Disapprovals (IOD) had already been received. Mr. Singhania highlighted that ~50% of the approvals have been received while the company is in the process of seeking additional approvals. Once all the approvals are in place, the structure should be completed within 6-8 months of the commencement, as per the management. The proposed new hall will be a multi-purpose hall for exhibitions, musical events, sporting events, corporate programs, etc. Capex of ~Rs800mn is expected to be incurred for the said expansion.

**2 exhibitions conducted in the existing Building 1:** The company has been able to host only 2 exhibitions YTD in FY21 in Feb 2021 at the existing legacy building 1. One exhibition was conducted by an old exhibitor in the construction industry and another exhibition the India Auto Show was organized by the company as part of its new Exhibitions segment. The management highlighted that exhibition organized by it as part of the Exhibitions segment was profitable and lesser investment was required this year (~Rs6mn) compared to the previous year (~Rs20mn). As per the management, both the exhibitions were able to attract significant turnouts and the exhibitions were conducted keeping the safety protocols in mind.

**Difficulty in restarting operations at BEC in April 2021:** The management highlighted that there has been an increase in the number of patients in the COVID care center from ~50 in Feb 2021 to ~500 currently. As per the management, two very significant exhibitions are lined up in April 2021. The government of Maharashtra has issued guidelines restricting gatherings of more than 50 people. While the company has received sign-off from the authorities to lease out Hall 1 for exhibitions, the exhibitors have yet not been able to obtain permissions for conducting the exhibitions. The management is unsure of the exhibitions taking place till the restriction over gathering of 50 people is in place.

**Good order book for the Indabator segment:** The management highlighted that sales in the Indabator segment has been good in January 2021 and February 2021 and it expects to end FY21 on a better note compared to FY20. The management highlighted that the order book visibility for this segment for FY22 is good and thus FY22 will be better even if the company is not able to get new orders.

**Hospitality segment has taken a beating in FY21:** As majority employees of the IT Park tenants are working from home (employee footfalls are as low as 5%) and the BEC has been converted into a quarantine center, the Hospitality segment has not been able to generate significant revenue. The only revenue for this segment is coming from providing ~1,000 meals to COVID warriors and patients on MCGM's request.

**Improvement in margins:** According to the management, the company has been able to save costs in FY21 as the BEC and Hospitality segments were not fully operational. Thus, margins are expected to improve in FY21 over FY20.

**Liquidity position:** The company had net cash balance of Rs7.53bn as on 2QFY21 (Rs6.85bn as on 4QFY20, Rs5.9bn as on 2QFY20) on the balance sheet, which gives us a high comfort level about the stock. The management indicated that cash on its books in 3QFY21 stood at ~Rs7.8bn.

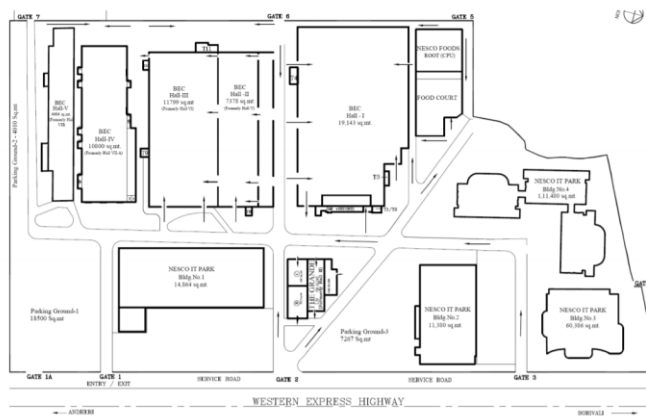
**Maintain Buy with a TP of Rs808:** Our TP of Rs808 is NAV-based using the SOTP method. Our valuation is driven by the restructuring of the NESCO IT Park, increase in rentable space of the BEC and the expected increase in rental rates. Our optimism is supported by a healthy balance sheet, consistently positive free cash flow and the management's growth-oriented focus (with expansion of the flagship business over the next 20 years).

**Exhibit 1: Segments that NESCO has its presence:**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Existing layout of IT Park and BEC:**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Existing and potential FSI:**

Area (Square Meter)	IT Park	BEC	Others	Total
Plot Area	1,70,451	50,000	27,903	2,48,354
Potential - FSI Area	6,45,685	2,70,000	-	9,15,685
Potential - Chargeable Area	7,74,822	2,70,000	-	10,44,822
Potential - Built up Area	12,26,801	5,40,000	-	17,66,801
Existing - BUA	2,49,907	61,200	-	3,11,107
Existing - BUA / to be retained	2,32,256	-	-	2,32,256
Potential BUA / Future Development	9,94,545	5,40,000	-	15,34,545

Note - Area calculations are as per the provisions of DCPR 2034

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Hall wise area of BEC:**

Bombay Exhibition Center	
Particulars	Area (Sq. Mtr)
Hall 01	20,000
Hall 02 / Grande	2,500
Hall 05	7,500
Hall 06	12,000
Hall 07	4,500
Hall 07A	11,000
<b>Current Saleable Area</b>	<b>57,500</b>
Hall 08 (Proposed)	15,000

Source: Company, Nirmal Bang Institutional Equities Research

## Consolidated financials

### Exhibit 5: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>3,609</b>	<b>4,317</b>	<b>2,923</b>	<b>4,207</b>	<b>5,022</b>
Growth YoY (%)	12.4	19.6	(32.3)	43.9	19.4
COGS	228	176	119	172	205
Operating Costs	565	719	623	749	833
Other Expenses	489	640	433	624	745
<b>EBITDA</b>	<b>2,328</b>	<b>2,782</b>	<b>1,747</b>	<b>2,662</b>	<b>3,238</b>
<b>EBITDA growth (%)</b>	<b>6.5</b>	<b>19.5</b>	<b>(37.2)</b>	<b>52.4</b>	<b>21.7</b>
<b>EBITDA margin (%)</b>	<b>64.5</b>	<b>64.4</b>	<b>59.8</b>	<b>63.3</b>	<b>64.5</b>
Depreciation	119	224	436	438	441
<b>EBIT</b>	<b>2,209</b>	<b>2,558</b>	<b>1,311</b>	<b>2,224</b>	<b>2,798</b>
<b>EBIT (%)</b>	<b>61.2</b>	<b>59.2</b>	<b>44.9</b>	<b>52.9</b>	<b>55.7</b>
Interest expense	47	60	60	60	60
Other income	317	425	447	469	493
<b>Earnings before tax</b>	<b>2,479</b>	<b>2,923</b>	<b>1,698</b>	<b>2,632</b>	<b>3,230</b>
Tax- total	675	584	427	663	813
Rate of tax (%)	27.2	20.0	25.2	25.2	25.2
<b>Net profit</b>	<b>1,804</b>	<b>2,339</b>	<b>1,270</b>	<b>1,970</b>	<b>2,417</b>
% growth	1.0	29.6	(45.7)	55.1	22.7
EPS (FD)	26	33	18	28	34
% growth	1.0	29.6	(45.7)	55.1	22.7

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Share capital</b>	<b>141</b>	<b>141</b>	<b>141</b>	<b>141</b>	<b>141</b>
Reserves and surplus	11,564	13,434	14,589	16,381	18,581
<b>Net worth</b>	<b>11,705</b>	<b>13,575</b>	<b>14,730</b>	<b>16,522</b>	<b>18,722</b>
Loans	-	-	-	-	-
Other financial liabilities	534	979	999	1,009	1,019
Provisions	35	38	48	48	49
Deferred tax liability	179	260	260	260	260
Other non-current liabilities	128	236	223	223	232
<b>Total capital employed</b>	<b>12,581</b>	<b>15,088</b>	<b>16,258</b>	<b>18,061</b>	<b>20,282</b>
Property, plant and equipment	7,220	7,778	10,155	13,767	15,543
Investments	-	-	-	-	-
Loans	36	44	44	44	44
Other non-current assets	391	844	844	844	844
<b>Total non-current assets</b>	<b>7,647</b>	<b>8,666</b>	<b>11,043</b>	<b>14,655</b>	<b>16,431</b>
Trade payables	108	146	99	118	124
Other financial liabilities	386	381	381	254	392
Other current liabilities	406	477	453	475	499
Provisions (current)	7	5	5	6	6
<b>Total current liabilities</b>	<b>906</b>	<b>1,009</b>	<b>938</b>	<b>852</b>	<b>1,020</b>
Inventories	90	86	58	84	100
Investments	5,312	6,722	5,522	3,522	4,022
Trade receivables	180	160	109	184	220
Cash and bank balance	87	134	136	140	200
Current tax assets (net)	78	-	-	-	-
Other current assets	93	328	328	328	328
<b>Total current assets</b>	<b>5,840</b>	<b>7,431</b>	<b>6,153</b>	<b>4,258</b>	<b>4,871</b>
<b>Net current assets</b>	<b>4,934</b>	<b>6,422</b>	<b>5,215</b>	<b>3,406</b>	<b>3,850</b>
<b>Total capital employed</b>	<b>12,581</b>	<b>15,088</b>	<b>16,258</b>	<b>18,061</b>	<b>20,282</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Profit after tax	1,804	2,339	1,270	1,970	2,417
Depreciation	119	224	436	438	441
Finance costs	47	60	60	60	60
Other income	(317)	(425)	(447)	(469)	(493)
Working capital changes	69	146	24	(178)	137
<b>Operating cash flow</b>	<b>1,722</b>	<b>2,344</b>	<b>1,344</b>	<b>1,822</b>	<b>2,562</b>
Capital expenditure	(1,459)	(359)	(3,150)	(4,050)	(2,217)
<b>Net cash after capex</b>	<b>263</b>	<b>1,985</b>	<b>(1,806)</b>	<b>(2,228)</b>	<b>345</b>
(Purchase)/sale of investments	(9)	(985)	1,647	2,469	(7)
Proceeds/repayment of borrowing	-	-	-	-	-
Finance costs	(47)	(60)	(60)	(60)	(60)
Dividend & dividend distribution tax	(195)	(467)	(114)	(177)	(218)
Other	(39)	(425)	336	(0)	-
<b>Cash flow from financing</b>	<b>(282)</b>	<b>(953)</b>	<b>161</b>	<b>(238)</b>	<b>(278)</b>
<b>Total cash generation</b>	<b>(29)</b>	<b>47</b>	<b>2</b>	<b>4</b>	<b>60</b>
Opening cash balance	116	87	134	136	140
<b>Closing cash &amp; bank balance</b>	<b>87</b>	<b>134</b>	<b>136</b>	<b>140</b>	<b>200</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Key ratios

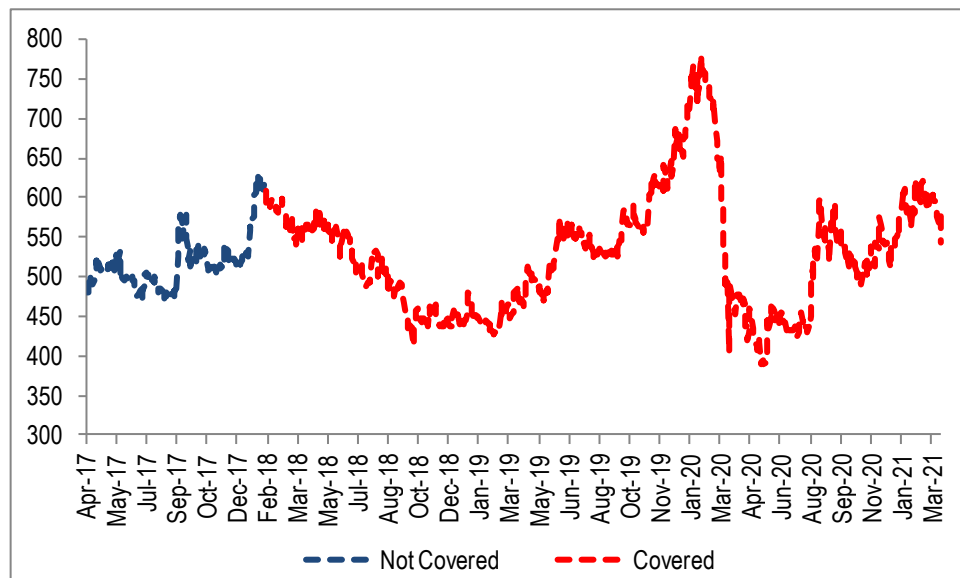
Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Profitability and return ratios</b>					
EBITDA margin (%)	64.5	64.4	59.8	63.3	64.5
EBIT margin (%)	61.2	59.2	44.9	52.9	55.7
Net profit margin (%)	50.0	54.2	43.5	46.8	48.1
RoE (%)	15.4	17.2	8.6	11.9	12.9
RoCE (%)	17.6	17.0	8.1	12.3	13.8
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	18	14	14	16	16
Inventory (days)	138	169	169	169	169
Payables (days)	172	302	302	250	220
Current ratio (x)	6.4	7.4	6.6	5.0	4.8
<b>Valuation ratios</b>					
EV/sales (x)	10.6	8.8	13.1	9.1	7.6
EV/EBITDA (x)	16.4	13.7	21.9	14.4	11.8
P/E (x)	21.2	16.4	30.1	19.4	15.8
P/BV (x)	3.3	2.8	2.6	2.3	2.0

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
30 January 2018	Buy	613	794
14 February 2018	Buy	595	794
18 May 2018	Buy	560	794
9 August 2018	Buy	502	768
14 November 2018	Buy	461	764
15 February 2019	Buy	442	764
27 May 2019	Buy	485	764
29 July 2019	Buy	540	782
7 August 2019	Buy	537	782
13 November 2019	Buy	605	937
16 January 2020	Buy	717	937
10 February 2020	Buy	770	937
17 March 2020	Buy	538	937
24 March 2020	Buy	404	931
12 May 2020	Buy	413	769
20 May 2020	Buy	393	769
21 May 2020	Buy	395	769
17 August 2020	Buy	518	769
25 August 2020	Buy	567	769
23 September 2020	Buy	556	759
13 November 2020	Buy	510	759
7 January 2021	Buy	575	808
14 February 2021	Buy	615	808
19 March 2021	Buy	543	808

## Rating track graph



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BUY > 15%

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SELL < -5%

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