

NESCO

20 May 2020

Reuters: NSEN.NS; Bloomberg: NSE IN

IT Park revenue drives net profit

NESCO's reported net profit growth of 3% YoY in 4QFY20 was driven by strong revenue growth of 86% YoY from NESCO IT Park. The company has a strong balance sheet with net cash of Rs6.85bn, which will help the company in the planned capex for expansion.

NESCO's net profit of Rs529mn for 4QFY20, up 3% YoY, was primarily driven by revenue growth of 26% YoY. We have maintained our Buy rating on the stock with a target price (TP) of Rs769.

NESCO IT Park drives revenue growth on YoY basis: NESCO has reported revenue of Rs1,178mn, up 26% YoY. NESCO IT Park revenue stood at Rs642mn, up 86% YoY. The YoY increase in revenue was driven by strong demand for IT Tower 4 (1.20mn sq. ft.), which began its operations in FY20. On a QoQ basis, NESCO IT Park revenue increased marginally by 1%.

Because of the outbreak of coronavirus in 4QFY20, the management witnessed some delay in closing certain ongoing deals for the recently commissioned IT Tower 4. Two deals ongoing before the lockdown have been cancelled. Certain negotiations have been put on hold. However, there are certain deals which have been closed with deposits received and licence agreements signed. The IT Tower 4 is currently ~80% leased (agreement entered into or LOI signed). 60%-65% of the leased area has become either operational or is at the end of fit-out stage. The average rental for IT Tower 4 is Rs125/sq. ft. on the back of continued strong demand for IT Tower 4.

Bombay Exhibition Centre (BEC) revenue declines marginally on YoY basis: BEC revenue at Rs415mn declined marginally by 2.4% YoY despite partial lockdown in March 2020.

The company in its press release has declared that five halls of BEC have been provided to the Municipal Corporation of Greater Mumbai (MCGM) with the latter converting it into a large quarantine center to help fight the ongoing pandemic. We do not expect any revenue from BEC for FY21.

Hospitality revenue declines sharply: Hospitality segment revenue declined by 19% YoY to Rs83mn in 4QFY20. Since the F&B revenues are linked majorly to BEC occupancy and revenues, we do not expect any revenues from the F&B segment as well in FY21.

EBITDA increases 9.3% YoY but margin drops by 930bps: NESCO has reported EBITDA of Rs713mn, up 9.3% YoY while EBITDA margin contracted by 930bps YoY to 60.5%.

The increase in EBITDA was due to increase in revenue by 25.9% YoY. The margin contracted due to: (1) Employee benefit expenses increasing by 23% YoY and (2) Other expenses increasing by 83% YoY.

High cash balance increases comfort on the stock: The current net cash balance of Rs6.85bn as on 4QFY20 (Rs5.9bn as on 2QFY20) on the balance sheet gives us a high comfort on the stock.

As per our previous discussions with the management, the company has received ~Rs300mn from exhibitors for exhibitions which were cancelled due to lockdown. The management in our earlier discussions has clarified that currently there are no talks with regards to the refund of the advance money. The advance money received shall be adjusted against the event, which is deferred to a later date. In case the exhibitions are seasonal and held only once a year, the exhibition might be deferred to next year. This can also be seen through a rise in creditors by 36% YoY from Rs108mn in 4QFY19 to Rs146mn in 4QFY20.

Maintain Buy with a revised TP of Rs769: Our TP of Rs769 for NESCO is NAV based using SOTP valuation. Our valuation is driven by the restructuring of the NESCO IT Park, increase in rentable space of BEC and the expected increase in rental rates. Our optimism is supported by a healthy balance sheet, consistently positive free cash flow and management's growth-oriented focus (with expansion of the flagship business over the next 20 years).

BUY

Sector: Real Estate

CMP: Rs393

Target Price: Rs769

Upside: 96%

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Key Data

Current Shares O/S (mn)	70.5
Mkt Cap (Rsbn/US\$m)	27.7/366
52 Wk H / L (Rs)	817/381
Daily Vol. (3M NSE Avg.)	73,717

Price Performance (%)

	1 M	6 M	1 Yr
NESCO	(16.6)	(37.8)	(18.3)
Nifty Index	(4.2)	(25.6)	(22.2)

Source: Bloomberg

Y/E Mar (Rs mn)	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	4QFY20E	Var (%)
Net sales	1,178	1,151	2.3	935	25.9	1,083	8.7
Cost of goods	(33)	(35)	(4.8)	(33)	1.2	(37)	(10.6)
Employee benefits expenses	(51)	(54)	(5.9)	(41)	23.1	(55)	(7.7)
Other Expenses	(381)	(289)	31.6	(209)	82.5	(295)	29.0
EBITDA	713	773	(7.7)	652	9.3	696	2.4
EBITDAM (%)	60.5	67.1	-	69.8	-	64.2	-
Depreciation and amortization	(49)	(70)	(30.6)	(26)	90.6	(72)	(32.0)
EBIT	664	703	(5.5)	627	5.9	624	6.4
EBITM (%)	56.4	61.0	-	67.0	-	57.6	-
Other income	135	137	(0.9)	133	2.1	139	(2.8)
Interest expenses	(19)	(17)	15.4	(14)	34.3	(17)	15.4
Extraordinary/Exceptional	-	-	-	-	-	-	-
Profit before tax	781	823	(5.1)	745	4.7	747	4.5
Tax expense	(251)	(132)	91.1	(232)	8.5	(188)	33.7
Effective tax rate (%)	32	16	-	31	-	25	-
PAT	529	691	(23.4)	514	3.0	559	(5.4)
NPM (%)	44.9	60.1	-	54.9	-	51.6	-

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Quarterly segment wise revenue and EBIT performance:

<i>All amounts in INR mn</i>							
Segment Revenues	4QFY20	3QFY20	QoQ(%)	4QFY19	YoY(%)	4QFY20E	Var(%)
NESCO IT Park	642	634	1.3	345	86.2	640	0.3
Bombay Exhibition Centre	415	378	9.9	426	(2.4)	298	39.4
Indabrador	37	36	3.4	63	(40.4)	64	(41.6)
NESCO Hospitality	83	103	(19.3)	102	(18.7)	81	2.4
Total	1,178	1,151	2.3	935	25.9	1,083	8.7

Segment EBIT	4QFY20	3QFY20	4QFY19	QoQ(%)	YoY(%)
NESCO IT Park	530	514	295	3.1	79.7
Bombay Exhibition Centre	336	260	360	29.5	(6.6)
Indabrador	(15)	(13)	(6)	12.5	147.9
NESCO Hospitality	11	22	31	(51.1)	(65.5)
Total	862	783	681	10.2	26.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Yearly segment wise revenue and EBIT performance:

<i>All amounts in INR mn</i>			
Segment Revenues	FY20	FY19	YoY(%)
NESCO IT Park	2,142	1,370	56.4
Bombay Exhibition Centre	1,586	1,573	0.8
Indabrador	233	325	(28.5)
NESCO Hospitality	357	341	4.6
Total	4,317	3,609	19.6

Segment EBIT	FY20	FY19	YoY(%)
NESCO IT Park	1,770	1,146	54.5
Bombay Exhibition Centre	1,217	1,219	(0.2)
Indabrador	(24)	(3)	700.0
NESCO Hospitality	77	70	10.0
Total	3,039	2,433	24.9

Source: Company, Nirmal Bang Institutional Equities Research

Consolidated financials

Exhibit 3: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	3,212	3,596	4,317	3,003	4,268
Growth YoY (%)	3.1	12.0	19.6	(30.4)	42.1
COGS	192	228	176	190	270
Operating Costs	453	565	208	565	684
Other Expenses	381	489	1151	407	578
EBITDA	2,185	2,314	2,782	1,842	2,736
EBITDA growth (%)	1.8	5.9	19.5	(33.8)	48.5
EBITDA margin (%)	68.0	64.4	64.4	61.3	64.1
Depreciation	110	119	224	457	459
EBIT	2,075	2,196	2,558	1,385	2,277
EBIT (%)	64.6	61.1	59.2	46.1	53.4
Interest expense	56	47	60	47	47
Other income	361	331	425	398	417
Earnings before tax	2,379	2,479	2,923	1,736	2,647
Tax- total	592	675	584	470	717
Rate of tax (%)	24.9	27.2	20.0	27.1	27.1
Net profit	1,787	1,804	2,339	1,266	1,931
% growth	5.1	1.0	28.7	(45.9)	52.5
EPS (FD)	25	26	33	18	27
% growth	5.1	1.0	28.7	(23.5)	52.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	141	141	141	141	141
Reserves and surplus	9,970	11,564	13,434	14,497	16,428
Net worth	10,111	11,705	13,575	14,638	16,569
Loans	-	-	-	-	-
Other financial liabilities	120	534	979	999	1,009
Provisions	35	35	38	68	68
Deferred tax liability	232	179	260	260	260
Other non-current liabilities	34	128	236	219	219
Total capital employed	10,533	12,581	15,088	16,183	18,124
Property, plant and equipment	5,855	7,220	7,778	10,366	13,957
Investments	-	-	-	-	-
Loans	39	36	44	36	36
Other non-current assets	407	391	844	391	391
Total non-current assets	6,301	7,647	8,666	10,793	14,384
Trade payables	94	108	146	90	127
Other financial liabilities	756	386	381	381	309
Other current liabilities	396	406	477	453	475
Provisions (current)	3	7	5	6	6
Total current liabilities	1,248	906	1,009	929	917
Inventories	124	90	86	75	107
Investments	4,985	5,312	6,722	5,812	4,012
Trade receivables	141	180	160	150	213
Cash and bank balance	116	87	134	111	154
Current tax assets (net)	38	78	-	78	78
Other current assets	76	93	328	93	93
Total current assets	5,480	5,840	7,431	6,320	4,658
Net current assets	4,231	4,934	6,422	5,390	3,740
Total capital employed	10,533	12,581	15,088	16,183	18,124

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Profit after tax	1,787	1,804	2,339	1,266	1,931
Depreciation	110	119	224	457	459
Finance costs	56	47	60	47	47
Other income	(361)	(331)	(425)	(398)	(417)
Working capital changes	(21)	69	146	591	(97)
Operating cash flow	1,572	1,709	2,344	2,362	2,340
Capital expenditure	(1,466)	(1,459)	(776)	(3,224)	(4,050)
Net cash after capex	106	249	1,569	(2,357)	(1,371)
(Purchase)/sale of investments	194	4	(985)	911	1,800
Proceeds/repayment of borrowing	-	-	-	-	-
Finance costs	(56)	(47)	(60)	(47)	(47)
Dividend & dividend distribution tax	(187)	(195)	-	-	-
Other	2	-39	-476	23	0
Cash flow from financing	(241)	(282)	(536)	(24)	(47)
Total cash generation	59	(28)	47	130	(19)
Opening cash balance	57	116	87	134	111
Closing cash & bank balance	116	87	134	111	154

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

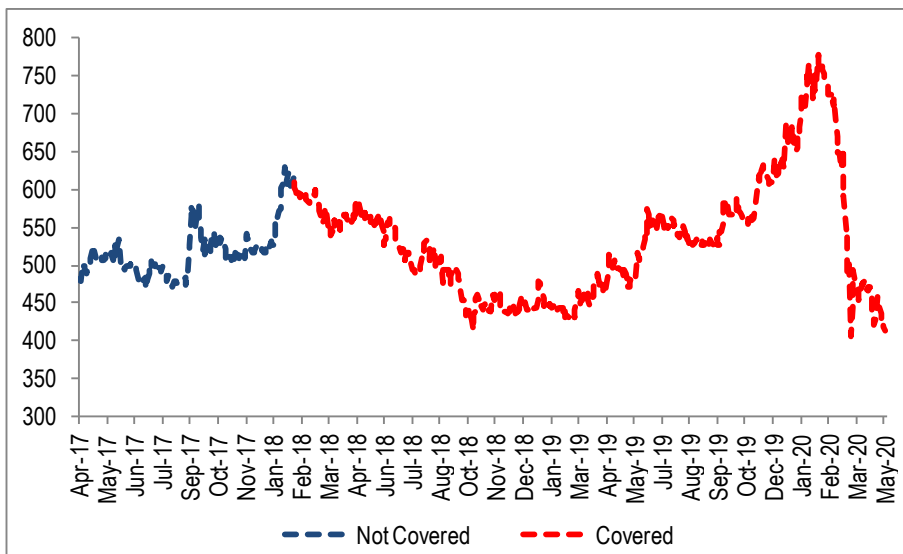
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Profitability and return ratios					
EBITDA margin (%)	68.0	64.4	64.4	61.2	64.0
EBIT margin (%)	64.6	61.1	59.2	46.0	53.2
Net profit margin (%)	55.6	50.2	54.2	42.0	45.1
RoE (%)	17.7	15.4	12.4	8.6	11.6
RoCE (%)	19.7	17.5	13.6	8.9	13.1
Working capital & liquidity ratios					
Receivables (days)	16	18	18	18	18
Inventory (days)	248	138	138	138	138
Payables (days)	178	172	172	172	172
Current ratio (x)	4.4	6.4	10.7	49.7	7.8
Valuation ratios					
EV/sales (x)	8.6	7.7	6.4	9.2	6.5
EV/EBITDA (x)	12.6	11.9	9.9	15.0	10.1
P/E (x)	15.5	15.3	11.8	22.0	14.4
P/BV (x)	2.7	2.4	2.0	1.9	1.7

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

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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