

NESCO

15 February 2019

Reuters: NSEN.NS; Bloomberg: NSE IN

Weak Margins And A Rise In Other Expenses

NESCO reported a net profit of Rs420mn for 3QFY19, down 4.1% YoY and 13.1% QoQ. The decline in earnings was because of: 1) Weak revenues of BEC (Bombay Exhibition Centre), down 6.7% YoY and 20% QoQ to Rs370mn. 2) Hospitality segment's revenues at Rs69mn were down 23.7% QoQ. 3) Other expenses increased 65.3% YoY and 23.5% QoQ to Rs258mn. We have retained our Buy rating on NESCO with an unchanged target price of Rs764 based on FY21E NAV.

Revenues fall on account of decline in revenues of BEC: NESCO reported revenues of Rs 885mn, down 12.4% QoQ and up 9.8% YoY. BEC revenues at Rs370mn, declined 6.7% YoY and 20.0% QoQ. In 2QFY19, revenues of Rs120mn from exhibitions held by two clients (one of which was the Government of India) were earned. In 3QFY19, these two clients shifted to Noida. The management expects revenues from the BEC to remain at the current level as revenues garnered from two clients in the previous quarter was a one-time event. Indabrador segment's revenues stood at Rs 95mn, up 78% YoY and down 8% QoQ. NESCO IT park revenues declined marginally from Rs 355mn in 2QFY19 to Rs352mn in 3QFY19. The marginal decrease during the quarter is because of the accounting methodology for security deposit post renewal in 2QFY19.

Sluggish growth in food and beverage (F&B) segment: F&B revenues stood at Rs69mn in 3QFY19, representing a decrease of 23.7% QoQ. The fall in F&B segment is because of the decline in exhibitions held during the quarter. However, we expect F&B segment to continue to outperform with the expansion of its employee base and increased ability to serve more number of people within NESCO IT park and audience/clients attending exhibitions. The management has given revenue guidance of Rs280mn-Rs300mn for hospitality segment in FY19. F&B segment's revenues cannot be compared on YoY basis as the segment was a part of consolidated financials in 2QFY18, but is now reported as a part of standalone financials.

Higher other expenses impacts EBITDA: Other expenses stood at Rs258mn, up 65.3% YoY and 23.5% QoQ. The increase is because of: 1) Higher spending on CSR activity at Rs50mn during 9MFY19 as compared to Rs35mn during FY 18. 2) The company has recorded accounting loss of Rs350mn from the sale of assets of Building 3 given on operating lease for fit-outs four-and-a half years ago.

EBITDA margin declines to 57%: NESCO reported EBITDA of Rs505mn, down 13.8% YoY and 23.6% QoQ. EBITDA margin at 57% contracted 1,560bps YoY and 841bps QoQ because of higher spending on CSR activity during 9MFY19 and accounting of one-time accounting loss of Rs350mn on sale of assets from Building 3.

Higher other income supports PAT: Other income at Rs130mn in 3QFY19 increased 68.1% YoY and 216.4% QoQ. The increase can be attributed to mark-to-market (MTM) profit on debt securities accounted during the quarter.

Retain Buy rating with an unchanged target price of Rs764: Our valuation is driven by the restructuring of 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 the management's growth-oriented focus with expansion of the flagship business over the next 20 years. We have retained Buy rating on NESCO with an unchanged target price of Rs764 based on FY21E NAV.

BUY

Sector: Real Estate

CMP: Rs442

Target Price: Rs764

Upside: 73%

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Key Data

Current Shares O/S (mn)	70.5
Mkt Cap (Rsbn/US\$m)	31.3/439.4
52 Wk H / L (Rs)	638/404
Daily Vol. (3M NSE Avg.)	20,257

Price Performance (%)

	1 M	6 M	1 Yr
NESCO	(2.7)	(15.2)	(24.7)
Nifty Index	(1.3)	(6.0)	1.9

Source: Bloomberg

Y/E March (Rsmn)	3QFY19	2QFY19	QoQ (%)	3QFY18	YoY (%)	3QFY19E	Var. (%)
Net sales	885	1,010	(12.4)	806	9.8	879	0.7
Cost of goods	(68)	(88)	(23.4)	(27)	155.1	(63)	7.3
Employee benefits expenses	(56)	(53)	5.3	(39)	43.9	(54)	3.2
Other expenses	(258)	(209)	23.5	(156)	65.3	(217)	18.8
EBITDA	505	661	(23.6)	585	(13.8)	545	(7.5)
EBITDAM (%)	57.0	65.4	-	72.6	-	62.0	-
Depreciation and amortisation	(33)	(30)	8.8	(29)	12.5	(31)	6.6
EBIT	472	630	(25.2)	556	(15.2)	514	(8.3)
EBITM (%)	53.3	62.4	-	68.9	-	58.5	-
Other income	130	41	216.4	77	68.1	51	154.5
Interest expenses	(9)	(14)	(33.5)	(16)	(39.3)	(14)	(33.5)
Extraordinary/exceptional items	-	-	-	-	-	-	-
Profit before tax	592	657	(10.0)	618	(4.2)	551	7.4
Tax expenses	(171)	(174)	(1.3)	(179)	(4.4)	(165)	3.8
Effective tax rate (%)	29	26	-	29	-	30	-
Reported net profit	420	484	(13.1)	438	(4.1)	386	8.9
NPM (%)	47.5	47.9	-	54.4	-	43.9	-

Source: Company, Nirmal Bang Institutional Equities Research

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

Consolidated financials

Exhibit 1: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	3,114	3,219	3,114	3,940	4,859
Growth YoY (%)	18.2	3.4	(3.3)	26.5	23.3
COGS	179	192	186	235	290
Operating costs	560	565	639	772	963
Other expenses	230	278	261	331	408
EBITDA	2,146	2,185	2,028	2,602	3,199
EBITDA growth (%)	13.8	1.8	(7.2)	28.3	22.9
EBITDA margin (%)	68.9	67.9	65.1	66.0	65.8
Depreciation	81	110	168	335	335
EBIT	2,065	2,075	1,861	2,267	2,864
EBIT (%)	66.3	64.4	59.7	57.5	58.9
Interest expenses	50	56	56	56	56
Other income	430	361	161	89	100
Earnings before tax	2,445	2,379	1,965	2,300	2,908
Tax- total	745	592	599	701	886
Rate of tax (%)	30.5	24.9	30.5	30.5	30.5
Net profit	1,700	1,787	1,366	1,599	2,022

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	141	141	141	141	141
Reserves and surplus	8,370	9,970	11,169	12,620	14,456
Net worth	8,511	10,111	11,310	12,761	14,597
Loans	-	-	-	-	-
Other financial liabilities	721	120	161	247	344
Provisions	128	35	128	128	128
Deferred tax liability	273	232	273	273	273
Other non-current liabilities	77	34	-	-	-
Total capital employed	9,709	10,532	11,872	13,409	15,342
Property, plant and equipment	4,500	5,855	8,961	10,501	13,241
Investments	-	-	-	-	-
Loans	28	39	28	28	28
Other non-current assets	499	407	499	499	499
Total non-current assets	5,027	6,301	9,488	11,028	13,768
Trade payables	229	186	180	228	281
Other financial liabilities	392	664	590	667	751
Other current liabilities	-	396	-	-	-
Provisions (current)	3	3	3	3	3
Total current liabilities	624	1,249	773	898	1,035
Inventories	134	124	127	161	199
Investments	4,818	4,985	1,800	1,000	200
Trade receivables	121	141	137	173	213
Cash and bank balance	57	116	918	1,772	1,822
Current tax assets (net)	-	38	-	-	-
Other current assets	175	76	175	175	175
Total current assets	5,305	5,480	3,157	3,281	2,609
Net current assets	4,681	4,231	2,384	2,383	1,574
Total capital employed	9,709	10,532	11,872	13,409	15,342

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Profit after tax	1,700	1,787	1,366	1,599	2,022
Depreciation	81	110	168	335	335
Finance costs	50	56	56	56	56
Other income	(430)	(361)	-	-	-
Working capital changes	109	(21)	(475)	141	155
Operating cash flow	1,511	1,572	1,115	2,132	2,568
Capital expenditure	(1,493)	(1,443)	(3,446)	(1,875)	(3,075)
Net cash after capex	17	129	(2,331)	257	(507)
(Purchase)/sale of investments	34	194	3,185	800	800
Proceeds/repayment of borrowing	-	-	-	-	-
Finance costs	(50)	(56)	(56)	(56)	(56)
Dividend & dividend distribution tax	-	(187)	(126)	(148)	(187)
Other	(9)	(21)	131	-	-
Cash flow from financing	(59)	(264)	(51)	(204)	(243)
Total cash generation	(8)	59	802	853	50
Opening cash balance	65	57	116	918	1,772
Closing cash & bank balance	57	116	918	1,772	1,822

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

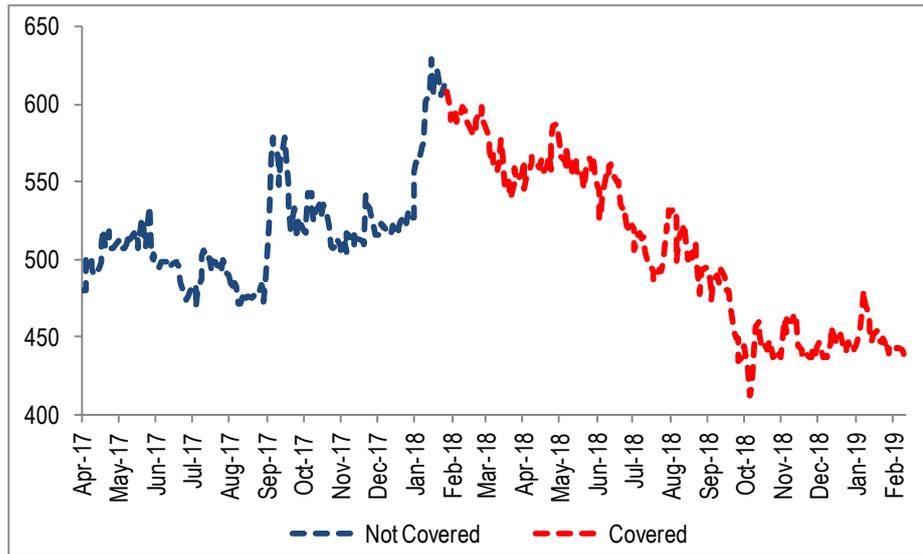
Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Profitability and return ratios					
EBITDA margin (%)	68.9	67.9	65.1	66.0	65.8
EBIT margin (%)	66.3	64.4	59.7	57.5	58.9
Net profit margin (%)	54.6	55.5	43.9	40.6	41.6
RoE (%)	20.0	17.7	12.1	12.5	13.9
RoCE (%)	21.3	19.7	15.7	16.9	18.7
Working capital & liquidity ratios					
Receivables (days)	14	16	16	16	16
Inventory (days)	271	248	250	250	250
Payables (days)	467	354	354	354	354
Current ratio (x)	8.5	4.4	4.1	3.7	2.5
Valuation ratios					
EV/sales (x)	10.0	9.7	10.0	7.9	6.4
EV/EBITDA (x)	14.5	14.2	15.3	11.9	9.7
P/E (x)	18.3	17.4	22.8	19.5	15.4
P/BV (x)	3.7	3.1	2.8	2.4	2.1

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

Rating track graph



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