

NESCO

27 May 2019

Reuters: NSEN.NS; Bloomberg: NSE IN

Revival Of BEC And Cost Efficiency Drives Revenues

NESCO reported a net profit of Rs514mn in 4QFY19, up 17% YoY and 22% QoQ. The growth in earnings was because of: 1) Increase in hospitality segment revenues. 2) Increase in revenues of BEC (Bombay Exhibition Centre). 3) Decrease in employee benefit expenses and cost of goods by 26% and 51%, respectively, on QoQ basis. We have retained Buy rating on NESCO with an unchanged target price of Rs764 based on FY21E NAV.

Revenues increase on account of growth in revenues of BEC: NESCO reported revenues of Rs935mn, up 5.6% QoQ and 14% YoY. BEC revenues, at Rs426mn, increased 24% YoY and 15% QoQ. Indabrator segment's revenues stood at Rs63mn, down 11% YoY and 34% QoQ. NESCO IT park revenues declined marginally from Rs352mn in 3QFY19 to Rs345mn in 4QFY19.

Strong growth in food and beverage (F&B) segment: Hospitality segment revenues rose 49% QoQ and 255% YoY to Rs102mn in 4QFY19. The rise in F&B segment is linked with the number of exhibitions held during a quarter. The rise in BEC revenues during 4QFY19 by 5.6% QoQ explains a part of the 15% QoQ growth in F&B revenues. 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 had given revenue guidance of Rs280mn-Rs300mn for hospitality segment in FY19. In FY19, F&B revenues stood at Rs336mn. 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.

Lower cost of goods and employee expenses improves EBITDA: In 4QFY19, EBITDA stood at Rs652mn, up 29% QoQ 10% YoY. Cost of goods stood at Rs33mn, down 51% QoQ. Employee benefit expenses stood at Rs41mn, down 26% QoQ. Other expenses at Rs 209mn were 19% down QoQ.

EBITDA margin at 70%: NESCO reported EBITDA of Rs652mn, up 10% YoY and 29% QoQ. EBITDA margin at 69.8% contracted 280bps YoY and improved 1,279bps QoQ as: 1) In 3QFY19, EBITDA margin had declined because of poor performance of BEC and hospitality segment. However, in 4QFY19, the revenues of these segments improved significantly on QoQ basis. Also, cost efficiency contributed to improvement in EBITDA margin on QoQ basis. 2) On YoY basis, EBITDA margin contracted because of other expenses being higher by 30% on YoY basis, while revenues grew only 14% on YoY basis.

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. We will be revising our estimates shortly.

BUY

Sector: Real Estate

CMP: Rs485

Target Price: Rs764

Upside: 58%

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Key Data

Current Shares O/S (mn)	70.5
Mkt Cap (Rsbn/US\$m)	34.1/490.4
52 Wk H / L (Rs)	580/404
Daily Vol. (3M NSE Avg.)	21,764

Price Performance (%)

	1 M	6 M	1 Yr
NESCO	(4.4)	10.3	(12.9)
Nifty Index	1.0	12.5	12.7

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY19	QoQ (%)	4QFY18	YoY (%)	4QFY19E	Var. (%)
Net sales	935	885	5.6	820	14.0	896	4.4
Cost of goods	(33)	(68)	(51.3)	(30)	9.7	(80)	(58.8)
Employee benefits expenses	(41)	(56)	(25.9)	(35)	17.6	(56)	(25.9)
Other expenses	(209)	(258)	(19.0)	(160)	30.4	(245)	(14.8)
EBITDA	652	505	29.3	595	9.6	516	26.5
EBITDAM (%)	69.8	57.0	-	72.6	-	57.6	-
Depreciation and amortisation	(26)	(33)	(22.7)	(29)	(13.0)	(33)	(22.7)
EBIT	627	472	33.0	566	10.7	483	29.9
EBITM (%)	67.0	53.3	-	69.0	-	53.9	-
Other income	133	130	2.3	72	84.3	130	2.3
Interest expenses	(14)	(9)	50.8	(18)	(21.1)	(9)	50.8
Extraordinary/exceptional items	-	-	-	-	-	-	-
Profit before tax	745	592	26.0	620	20.2	603	23.6
Tax expenses	(232)	(171)	35.2	(180)	28.7	(175)	32.5
Effective tax rate (%)	31	29	-	29	-	29	-
Reported net profit	514	420	22.2	440	16.7	428	20.0
NPM (%)	54.9	47.5	-	53.6	-	47.8	-

Source: Company, Nirmal Bang Institutional Equities Research

Consolidated financials

Exhibit 1: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	3,114	3,219	3,596	3,940	4,859
Growth YoY (%)	18.2	3.4	11.7	9.6	23.3
COGS	179	192	228	235	290
Operating costs	560	565	195	772	963
Other expenses	230	278	859	331	408
EBITDA	2,146	2,185	2,314	2,602	3,199
EBITDA growth (%)	13.8	1.8	5.9	12.4	22.9
EBITDA margin (%)	68.9	67.9	64.4	66.0	65.8
Depreciation	81	110	119	335	335
EBIT	2,065	2,075	2,196	2,267	2,864
EBIT (%)	66.3	64.4	61.1	57.5	58.9
Interest expenses	50	56	47	56	56
Other income	430	361	331	397	100
Earnings before tax	2,445	2,379	2,479	2,607	2,908
Tax- total	745	592	675	794	886
Rate of tax (%)	30.5	24.9	27.2	30.5	30.5
Net profit	1,700	1,787	1,804	1,813	2,022
EPS	24	25	26	26	29

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	141	141	141	141	141
Reserves and surplus	8,370	9,970	11,564	12,815	14,650
Net worth	8,511	10,111	11,705	12,955	14,791
Loans	-	-	-	-	-
Other financial liabilities	721	120	534	247	344
Provisions	128	35	35	128	128
Deferred tax liability	273	232	179	273	273
Other non-current liabilities	77	34	128	-	-
Total capital employed	9,709	10,532	12,581	13,603	15,534
Property, plant and equipment	4,500	5,855	7,220	10,501	13,241
Investments	-	-	-	-	-
Loans	28	39	36	28	28
Other non-current assets	499	407	391	499	499
Total non-current assets	5,027	6,301	7,647	11,027	13,767
Trade payables	229	186	108	228	281
Other financial liabilities	392	664	386	667	751
Other current liabilities	-	396	406	-	-
Provisions (current)	3	3	7	3	3
Total current liabilities	624	1,249	906	898	1,035
Inventories	134	124	90	161	199
Investments	4,818	4,985	5,312	1,000	200
Trade receivables	121	141	180	173	213
Cash and bank balance	57	116	87	1,966	2,016
Current tax assets (net)	-	38	78	-	-
Other current assets	175	76	93	175	175
Total current assets	5,305	5,480	5,840	3,474	2,802
Net current assets	4,681	4,231	4,934	2,576	1,767
Total capital employed	9,709	10,532	12,581	13,603	15,534

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Profit after tax	1,700	1,787	1,804	1,813	2,022
Depreciation	81	110	119	335	335
Finance costs	50	56	47	56	56
Other income	(430)	(361)	-	-	-
Working capital changes	109	(21)	69	141	155
Operating cash flow	1,511	1,572	2,039	2,346	2,568
Capital expenditure	(1,493)	(1,443)	(3,446)	(1,875)	(3,075)
Net cash after capex	17	129	(1,407)	471	(507)
(Purchase)/sale of investments	34	194	(327)	800	800
Proceeds/repayment of borrowing	-	-	-	-	-
Finance costs	(50)	(56)	(47)	(56)	(56)
Dividend & dividend distribution tax	-	(187)	(187)	(167)	(187)
Other	(9)	(21)	1939	831	-
Cash flow from financing	(59)	(264)	1,705	608	(243)
Total cash generation	(8)	59	(28)	1,878	50
Opening cash balance	65	57	116	87	1,966
Closing cash & bank balance	57	116	87	1,966	2,016

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

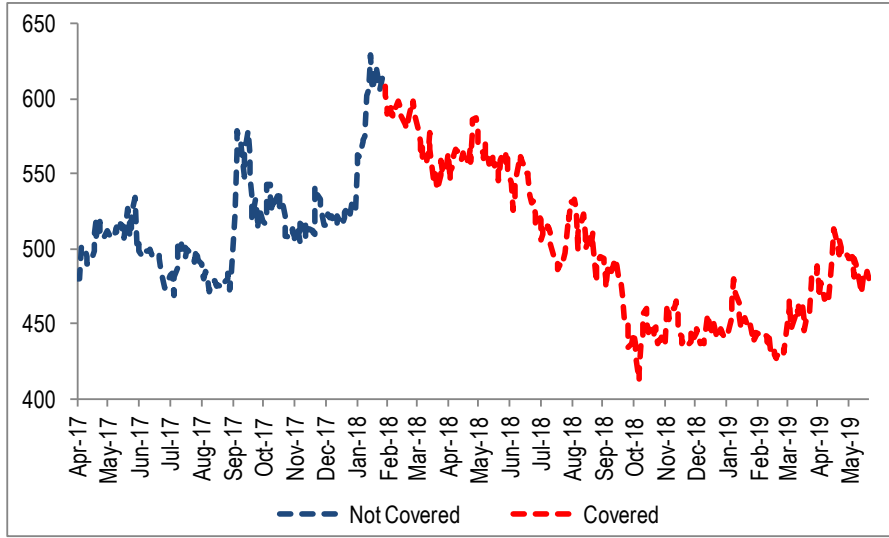
Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Profitability and return ratios					
EBITDA margin (%)	68.9	67.9	64.4	66.0	65.8
EBIT margin (%)	66.3	64.4	61.1	57.5	58.9
Net profit margin (%)	54.6	55.5	50.2	46.0	41.6
RoE (%)	20.0	17.7	12.1	14.0	13.7
RoCE (%)	21.3	19.7	15.7	16.7	18.4
Working capital & liquidity 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	3.9	2.7
Valuation ratios					
EV/sales (x)	10.0	9.7	8.6	7.9	6.4
EV/EBITDA (x)	14.5	14.2	13.4	11.9	9.7
P/E (x)	18.3	17.4	17.3	17.2	15.4
P/BV (x)	3.7	3.1	2.7	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
27 May 2019	Buy	485	764

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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