



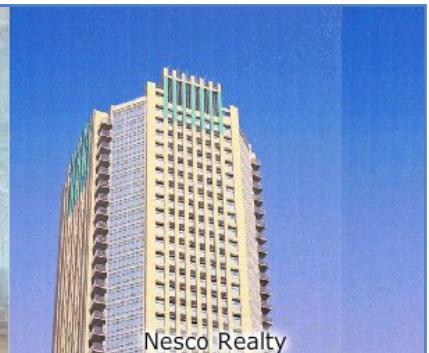
Engineering | Bombay Exhibition Centre | IT Parks



Bombay Convention &
Exhibition Centre



Indabrat



Nesco Realty

**Nesco Ltd (NSE Code: NESCO) – Alpha/Alpha + stock
recommendation for Mar'12**

Content Index

1. Investment Snapshot
2. Nesco Ltd – An Introduction
3. Bombay Exhibition Centre
4. IT Park & Realty
5. Indabrador – Industrial Capital Goods Group
6. Management & Shareholding Pattern
7. Dividend Policy
8. Profitability and rough estimates for FY 13
9. Growth drivers and Valuations
10. Risks & Concerns

Dear Members,

I am sure you all might be well aware of Pragati Maidan. If not, no issues. Check out the venue of Auto Expo 2012 and you will get to know about Pragati Maidan.

Just to share a few details, Pragati Maidan is a venue for large exhibitions and conventions in New Delhi, and with 774,720 sq. ft. of exhibition space, it is presently Delhi's largest exhibition centre. It is owned and managed by Indian Trade Promotion Organization (ITPO), the premier trade promotion agency of the Ministry of Commerce and Industry, Govt. of India.

Pragati Maidan hosts over 70 national and international exhibitions annually, with the largest being the India International Trade Fair which attracts over 10,000 exhibitors and over 30,00,000 visitors. It also houses five permanent exhibitions which include the Nehru Pavilion, Atomic Energy and Defense Pavilion. Some of the major events held in Pragati Maidan are the India International Trade Fair, World Book Fair and the Auto Expo.

Well, this was about Pragati Maidan, New Delhi. The question is:

Why are we telling you so much about Pragati Maidan?

It's because the global trade exhibition business is a multibillion dollar market in which India presently has 0.7% stake against China's 13%. However, one cannot deny the fact that India is fast emerging as a preferred destination and its share in the trade exhibition business is growing faster than appear.

Now, how can one gain from the burgeoning share of India in the global trade exhibition business. Pragati Maidan, obviously doesn't serve the purpose.

Well, luckily we have a listed company by the name of **NESCO Ltd** which owns an exhibition centre, Bombay Exhibition Centre (BEC), the largest exhibition center in the private sector, in the financial capital of the country, Mumbai.

Investment Snapshot (As on 31st Mar'12)

Recommendation – Buy

1st Accumulation Range – 600-630

2nd Accumulation Range – 525-550

Portfolio Allocation Strategy – Start with ~3% portfolio allocation in the 1st Accumulation range. We may increase overall allocation to 5% in case of correction in stock price.

Profit Booking – Refer Alpha/Alpha + weekly

Current Market Price – Rs 640.00

BSE Code – 505355 **NSE Code** – NESCO

Bloomberg Code – NSE: IN

Market capitalization – Rs 900 crores

Total Equity shares – 1.409 crore

Face Value – Rs 10.00

52 Weeks High/Low – Rs 775/ Rs 418

Promoter's holding – 62.03%

Nesco Ltd – An Introduction

Nesco can be described as a company that started with a lousy business and fortuitously ended up owning a great business, built on a 65-70 acre land bank, bought way back in 1959.

The company started with the manufacturing of tools in 1939 as the New Standard Engineering Co. Ltd. (NSE). By late 1950s the company had three manufacturing plants in Mumbai. In 1959 it consolidated all these three plants and moved to a 70 acre estate on the Western Express Highway at Goregaon in Mumbai.

By late 1980s, the Company started incurring losses in its capital goods business and gradually shifted the business to Gujarat, while it converted its Mumbai land bank into an exhibition and convention centre, popularly known as **Bombay Exhibition Centre (BEC)**.

Starting with a hall area of 200,000 sq. ft., this has now been expanded to over 450,000 sq. ft. The venue holds the distinction of being the largest exhibition center promoted by the private sector in India and has hosted over 700 national and international exhibitions, trade fairs, and events since inception.

What sets this venue apart from the rest is its location. The centre is ideally situated along the Western Express Highway in Goregaon, within 10 minutes from airports, walking distance to train stations and a 20 minute drive from the heart of the city.

Besides exhibition centre, the company has also developed IT Parks. IT Parks 1 & 2 with a total leasable area of 300,000 sq. ft. have already been leased out while the company is in the process of leasing out 660,000 sq. ft. space in IT Park 3.

With the completion of IT Park 3, the company has developed ~35-40% of land bank available for development.

The management has indicated towards setting up IT Parks 4 & 5 and increasing the exhibition space to 1,000,000 sq. ft. over the next few years.

Bombay Exhibition Centre (BEC)

Lack of adequate infrastructure in India:

The overseas organizers such as UBM, Reeds, Messe Frankfurt, etc and the national organizers face two major challenges when it comes to India:

- One, they can't ignore India as it has assumed much significance in the overall Global trade.
- Two, while they have to anyhow organize trade fairs (it's in their interest), there is lack of dedicated exhibition space in India.

Consider this; India has the same exhibition capacity as Chicago (the largest city in the US state of Illinois). India is far behind China, whose exhibition space is eight times larger.

Currently there are only 14 purpose-built exhibition centers providing an indoor exhibition space of 205,785 sq. m. Of these, only 3 have space exceeding 20,000 sq. m. (BEC being one of them with ~41,000 sq. m. space). No exhibition centre exceeds 70,000 sq. m. of available indoor exhibition space. New Delhi and Mumbai alone represent 70% of the nation's dedicated exhibition capacity.

According to the BSG report, venue space dedicated to exhibitions in India was 254,707 sq. m. in 2009, and no new venues were planned for at least two years. The shortage of space in cities like Mumbai and New Delhi is a particular problem, as it is these cities that have the critical mass of potential visitors necessary to support a busy trade fair calendar.

As per Mr. Manish Gandhi, executive director of Asian Business Exhibition and Conferences, for the Indian exhibition industry to achieve anything close to its USD 990m market potential (~ USD 200m at present), it needs to create an additional 800,000 sq. m. of exhibition space.

Thus, the inadequate infrastructure is obstructing the rapid growth of the Indian exhibition business, though still expected to grow at a CAGR of 20-25% for the next 4-5 years.

'In Indian exhibition industry, venue creation holds the key to future growth.'

9 May 2010

Mr. Sumit Gandhi is a Promoter and the Executive Director of Asian Business Exhibition & Conferences Ltd. Sumit joined the group business of Exhibitions and Conferences and was instrumental in organizing events such as Education Boutique, ACETECH, Glamour, Glitter, Glasscon, TG Tech etc. At Asian Business Exhibition & Conferences Ltd, Sumit is responsible for major areas of business such as handling Sales & Marketing and also Finance of certain key events of the Company.

In an e-mail conversation with EVENTFAQS, Gandhi shares his thoughts on the Indian Exhibition space. Excerpts from the interview:

Does the company own any exhibition properties? What are the major exhibitions managed by the company in the past?

ABECL owns the IPR of all exhibitions that it organizes. ABECL has 56 IPRs registered in its name. Some of our major exhibition properties are:

- ACETECH - the flagship event of ABECL, the largest Building material show in India and among the top 5 in Asia. ACETECH did 37,000+ sq mtrs and recorded 150,000+ visitors in 2009.
- Education Boutique - the largest Education show in India and among the top 10 in the world.

What is the present size of the industry, and how is it expected to grow in the coming years?

The present size of this industry is estimated to be 800 Crores and the industry is expected to grow at a CAGR of 20-25% over 2010-2020.

In your opinion, what are the key obstacles currently facing the Indian exhibition, convention and trade show industry business?

Venue is the most important one. We need world class infrastructure to host big exhibitions. The venue dedicated to exhibitions in India was 254,707 sq meters in 2009 (Ufi Report by Business Strategies Group, Fifth Edition 2009) and no new venues are planned for the next two years. For the Indian exhibition industry to achieve 700-990 Million USD size by 2020, we need an additional 800,000 sq meters to be created.

Shortage of realty in cities like Mumbai and Delhi is a problem. Government regulations are also not conducive to fast growth in this sector.

What improvements, in your opinion, would be key to the future success of the Indian Exhibition Industry?

As I said earlier, venue creation holds the key to future growth. Venue creation, being a highly capital intensive activity, needs government support and subsidies. Besides that, the real challenge to Organizers in India is to scale up the exhibitions and yet continue to give value to the exhibitors. MNCs need to

BEC – Competitive advantage

Though, the lack of adequate infrastructure is a hurdle in the growth of exhibition business in India, it adds to the competitive advantage of BEC immensely.

As mentioned earlier, the exhibitors can't afford to avoid India. The developed economies are in all sorts of trouble and it's the developing economies of India, China, Brazil and Russia that offer some respite for the companies expanding their business globally.

In India, Delhi & Mumbai are the two major centers for the important and large scale trade fairs and exhibitions. Mumbai is the largest city and is considered the financial capital of the country as it generates 5% of the total GDP. It serves as an economic hub, contributing

While Pragati Maidan serves the purpose in Delhi, when a large scale exhibition is to be held in Mumbai, BEC is the only place exhibitors can look forward to. The next biggest competitor — Nehru Center — has only 25,000 square feet of space, whereas BEC has 450,000 square feet exhibition space.

Besides owning a large and flat space (a pre-requisite for holding an international standard trade exhibition), the company enjoys locational advantages as it's located on a national highway and is just a 10-15 minutes drive from both the Domestic and International Airports of Mumbai.



Being able to quickly reach the destination (proximity to airport), and hassle free movement of heavy materials (through national highway) adds a lot to the comfort levels of both the exhibitors and the visitors attending trade fairs and exhibitions.

The above advantages put BEC in a very strong position to ward off any major competition. In order for any company to compete with Nesco's BEC, it will have to put in place an exhibition space as big as BEC and that too close to Airport.

Now, these days it's really not that easy to get such a huge flat space and that too in a city like Mumbai. Even if some company does manage to get such a space and that too near Airport, it will have to shell out huge sums of money or borrow a large sum. If on a lease, the company will pay off much of its revenue in the form of rent.

Thus, in the above condition BEC should still be able to retain its clients (lower charges in comparison to competitors) on account of its hugely profitable operations with PBT (profit before tax) margins in excess of 70%.

Bookings and Payments in advance: A source of cheap finance

Bombay Exhibition Centre - NSE Complex Calendar

Date	Time	Event
Mar 27 - Mar 28	None	India Food Service Forum
Mar 27 - Mar 28	None	Food Forum India
Apr 5 - Apr 8	None	Visitor Registration
Apr 12 - Apr 14	None	Mechanical Electrical Plumbing Expo
Apr 12 - Apr 14	None	Metal Buildings & Steel Structures Expo
Apr 12 - Apr 14	None	Aerodrome India
Apr 14 - Apr 15	None	Mega Education Fair
Apr 18 - Apr 20	None	Surface Transport
Apr 20 - Apr 22	None	Fashion Jewellery & Accessories Show
Apr 25 - Apr 27	None	Food & Bev Tech
Apr 25 - Apr 27	None	Food & Bev
Apr 26 - Apr 27	None	ChemProTech India
Apr 26 - Apr 27	None	Chemspec India
May 9 - Jul 9	None	Screen Print India
May 17 - May 19	None	Melt Metech

Date	Time	Event
May 17 - May 19	None	TraficInfraTech
May 17 - May 19	None	Visitor Registration
May 31 - Jun 2	None	INTEGRATE EXPO
May 31 - Jun 2	None	Musician Expo
May 31 - Jun 2	None	Palm India Expo
Jul 17 - Jul 19	None	HGH INDIA
Jul 17 - Jul 19	None	Visitor Registration
Sep 5 - Sep 7	None	Screen Print India
Sep 6 - Sep 7	None	Food Ingredients India
Sep 6 - Sep 7	None	Visitor Registration
Sep 7 - Sep 10	None	Automation Mumbai
Sep 7 - Sep 10	None	Visitor Registration
Sep 7 - Sep 10	10:00 am	automation 2012
Sep 11 - Sep 13	None	Sweet and SnackTec India
Sep 11 - Sep 13	None	IndiaPack

As can be observed from the above illustrations, the BEC is already booked in advance for the exhibitions and events to be held 6-8 months ahead, sometimes even 1 year ahead.

Annual Report 2010 - 2011				
Schedule 6	As at 31-03-2011		As at 31-03-2010	
	Rupees	Rupees	Rupees	Rupees
CURRENT LIABILITIES & PROVISIONS:				
A) Current Liabilities				
Sundry Creditors				
(Subject to reconciliation & Confirmations)				
(Refer note no. 5 in Schedule 11)				
Other Liabilities (Include Rs.21,115,506/- due to directors)		77,600,422		70,171,612
Advance against orders		49,119,680		55,572,741
Advance compensation from Licences		57,353,892		38,085,424
Advance from IT Park Licences		4,490,619		3,659,696
Advance from Convention & Exhibitions organizers		22,712,651		27,945,454
Security deposit from Exhibitors		306,192,001		168,284,518
Security deposit from I T Park Licences		3,119,593		3,119,593
Security deposit from Licences		126,199,574		28,198,595
		13,038,242		113,131,982

Moreover, the un-matched availability of space at strategic location ensures advance payments from exhibitors who cannot risk losing out on the location at the end moment.

Revenue contribution from BEC

Over the years, BEC has become the most popular venue for exhibitions and conventions at Mumbai, with all the leading overseas and national organizers holding their events at BEC, enabling higher space utilization than world average.

Year	BEC Revenues (Rs. In cr.)	Space (in sq. ft.)	Monthly Rate (Rs per sq. ft.)
FY 2011	65.62	450,000	122
FY 2010	54.04	450,000	100
FY 2009	34.96	450,000	65
FY 2008	49.63	450,000	92
FY 2007	32.91	450,000	61
FY 2006	14.41	450,000	27
FY 2005	10.97	450,000	20
FY 2004	5.44	450,000	10

As the trade exhibition industry gained traction in India, the space utilization rate improved drastically for BEC. Besides, there's been a gradual increase in rentals per sq. ft.

We believe there's still a good scope for increase in utilization rate and further strengthening of rentals (refer the below illustration for details).



ELEC RAMA-2012

10th International exhibition of Electrical and Industrial Electronics Industry

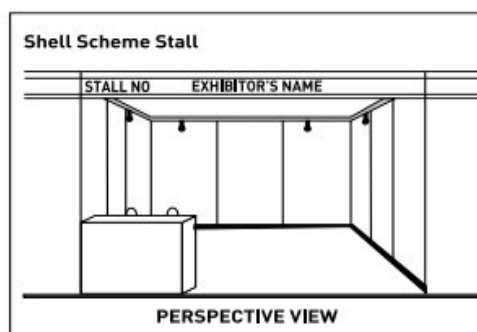
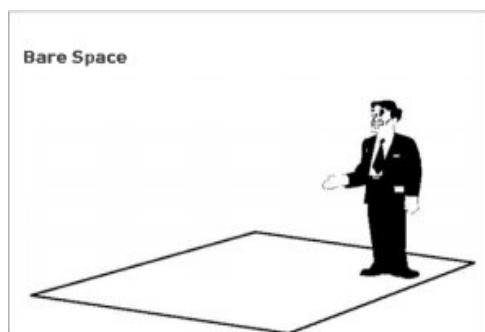
Bombay Exhibition Centre, NESCO Ltd.,
 Goregaon, Mumbai, INDIA

18th to 22nd January, 2012

Category of Exhibitor for participating in ELEC RAMA-2012 Exhibition	Tarriff* in Rs. per sqm						
	Bare Space 42 sqm and above				Shell Scheme 9 sqm and above		
	Normal	With Open Sides			Normal	With Open Sides	
		2 Sides Open (above 75 sqm)	3 Sides Open (above 200 sqm)	4 Sides Open (above 400 sqm)		2 Sides Open (above 18 sqm)	3 Sides Open (above 36 sqm)
IEEMA members* as on 31st January 2011	9,000	10,800	11,300	11,700	12,000	14,400	15,000
IEEMA Member/Nominal member admitted on or after 1st February 2011	10,500	12,600	13,100	13,600	13,500	16,200	16,900

Nominal member registered under Small Scale Industries booking under IEEMA-SSI pavilion	Requirements	Shell Scheme Stall of 9 sqm
	Submission of a copy of SSI registration certificate, duly endorsed by CA, confirming SSI status and a list of directors/partners.	Rs. 1,14,300 with one side open Rs. 1,37,700 with two sides open

Payment Schedule	Booking Amount	Second Installment	Final Payment
Booking before 31-03-2011	40%	30% before 31-07-2011	30% before 30-11-2011
Booking after 01-04-2011 but before 31-07-2011	70%	--	30% before 30-11-2011
Booking after 31-07-2011	100%	--	--



IEEMA (Indian Electrical & Electronics Manufacturers' Association) holds its exhibition ELECRAMA in BEC every 2 years, charges on an average 11,000-13,000 per sq. m. while it pays ~1300 per sq. m. to BEC. Since BEC's charges constitute only about 10% of the cost of IEEMA, there's a good scope for NESCO to increase the rentals, while still retain IEEMA as its client as there's no other alternative for IEEMA in Mumbai at the moment.

What will drive the growth of BEC

As illustrated above, during the last 7 years, the revenue from BEC have grown from Rs 5.44 crore for FY 04 to Rs 65.62 crore for FY 11. During the same period, the company didn't have to increase space under BEC as the utilization rate was low.

Now, in keeping pace with the improving utilization rate, the company has decided to expand the space under BEC from 450,000 sq. ft. to 1 million sq. ft.

From Nesco's AR 2010-11

Management Discussion and Analysis:

Bombay Convention & Exhibition Centre, the largest centre in India in the private sector, has become the most popular venue for conventions & exhibitions, with all world leading organizers holding their events in our centre. Its space utilization is better than world average. The Company is in the process of finalizing its expansion plans for which a world leading American architect firm has been appointed. Our Company hopes to start construction of the first new convention & exhibition hall before the end of this financial year. We expect our Convention & Exhibition Centre revenues to grow in 2011-12.

Besides, for exhibition space, the allowed FSI (Floor Space Index) is only 1 at the moment. In case the state govt. in Maharashtra makes the amendment and increases the FSI to 2 (as applied for by NESCO), it will be a huge positive for NESCO, as it will enable the company to almost double the exhibition space by constructing an upper floor.

Thus, overall there are various factors that can contribute towards the sustained growth in revenue of BEC. Here, enlisting them again:

- Improvement in space utilization (as the trade exhibition industry expands)
- Gradual increase in rentals
- Doubling of exhibition space from 450,000 sq. ft. to ~ 1 million sq. ft.
- Increase in FSI from 1 to 2 for the exhibition space

Also, to add here, since the company already owns the land and since it's already generating great cash flows, construction of new halls for BEC can be carried out from internal accruals at very high rate of return.

IT Park and Realty



This was about BEC, however NESCO is sitting on a land parcel of 70 acres i.e. approx. 30 lakh sq. ft of space and the management is utilizing every bit of it efficiently. They have also made it very clear that they don't intend to sell the land.

Besides BEC, NESCO has another important division i.e. **IT Park and Realty**, consisting of three IT buildings.

IT 1 and IT 2 have a combined total space of 300,000 sq. ft., leased out to major IT companies such as Schlumberger Asia Services Limited, Tata Consultancy Services Ltd, Sodexo, etc. For FY 11, the two buildings contributed a sum of Rs 33.73 crore towards the revenue of the company, i.e. an average rent of Rs 90 per sq. ft. per month.

Year	Realty Division + IT Park (Rs. In cr.)
FY 2011	33.73
FY 2010	22.95
FY 2009	22.18
FY 2008	16.67
FY 2007	9.41
FY 2006	9.48
FY 2005	6.00
FY 2004	2.53

Besides, IT 1 and IT 2, Nesco recently completed the construction of IT Building 3. While the total space is about 800,000 sq. ft., the leasable space is 660,000 sq. ft.

By Nov'11, the company had leased out 150,000 sq. ft. and they are expected to have completed the MoUs for the remaining space before end of Mar'12.

At Rs 90 per sq. ft. per month, the IT Building 3 should fetch Rs 70 crore (90 X 660,000 X 12) in FY 13 and overall Rs 100-105 crore from IT Park and Realty division for FY 13.

Consider this, company spent ~150 crores on the construction of IT Building 3 and will be earning Rs 70 crores in revenue. Besides, almost 75-80% of the same will fall into pre-tax profits of NESCO, as the land is effectively free and the company funded the construction out of internal accruals.

What will drive the growth of IT Park and Realty division?

As mentioned above, the revenue from IT Park and Realty division are expected to improve from Rs 33 crore for FY 11 to Rs 100-105 crore for FY 13.

Besides, NESCO has already appointed a firm for the design of subsequent IT Buildings i.e. Building 4 & 5. Also, the design for IT Building 4 has already been finalized and the construction was expected to start by Dec'11.

For IT Building 4, Nesco expects a capital outlay of Rs 200 crores and here again the entire CAPEX will be met through internal accruals. Moreover, the rate of return on IT Buildings is very good as the FSI of 5 is allowed against FSI of 1 for exhibition space. Thus, for a fraction of plot size, the company can create higher leasable space.

So, apart from the construction of IT 4 and IT 5 over the next 3-4 years, gradual increase in rents (although at a much slower pace than past) should also drive the growth in revenue from IT Park and Realty division of NESCO.

Indabrator – Industrial Capital Goods Group

Indabrator – Industrial capital goods group is the third business division of NESCO. Rather, it was the only business division before the company constructed the Bombay Exhibition Centre.

At present, Indabrator accounts for a minuscule share (~10% of revenue and on an average 2% of PAT) of the overall operations of NESCO and we hope that its share goes down even further.

Yes, as you rightly read, we hope for the above because had the contribution been large, it would have diluted the very good business economics of the BEC and the IT Park division.

Management & Shareholding Pattern

	Dec'11	Sep'11	Jun'11	Mar'11	Dec'10
Promoter & Promoter Group	62.03%	62.03%	62.03%	62.03%	62.04%
Indian	62.03%	62.03%	62.03%	62.03%	62.04%
Foreign					
Public	37.97%	37.97%	37.97%	37.97%	37.96%
Institutions	4.53%	4.43%	3.83%	4.52%	4.26%
FII	1.16%	1.45%	0.49%	1.02%	1.04%
DII	3.37%	2.98%	3.34%	3.50%	3.22%
Non-Institutions	33.44%	33.54%	34.14%	33.45%	33.70%
Bodies Corporate	8.73%	8.76%	9.29%	8.80%	8.96%
Custodians					
Total	14091992	14091992	14091992	14091992	14091992

The promoters of the company i.e. Mr. Sumant Patel and related entities hold 62% stake in the company. With promoters holding 62% stake, the interests of minority shareholders are well protected.

Besides, there's not much really to comment about the management, except for the fact that they seem to be very conservative in their approach and avoid using debt for

expansion. In 1980s, NESCO ran into BIFR and this could probable be the reason for their conservative approach towards business expansion.

Secondly, the business they operate in is relatively easy and there's not much one can do wrong (good from shareholders perspective).

Dividend Policy

The company has been regular with dividends, though the dividend payout is low at 5%, especially considering the fact that cash flows of the company have been very good.

The above could well be the reason for market's apathy towards NESCO and therefore low valuations. However, as long as the management is re-investing the surplus at high rates of return, the low dividend payout works in favor of shareholders.

Profitability and rough estimates for FY 13

We have been very repetitious of the good economics of BEC and Realty division and the same can be attributed to the fact that NESCO bought 70 acres of land, 5 decades ago at a cost of Rs 5 crores (book value), which now happens to be located close to Domestic and International Airport and the National Highway. Since the company does not pay any lease rents or interest, the profitability improves manifold with on an average 75% operating profit margin and ~65% profit before tax margin.

	FY 13 (E)*	9M FY 12	FY 11	FY 10	FY 09	FY 08
BEC (in cr.)	75	47.08	65.62	54.04	34.96	49.63
IT Park/ Realty Group (in cr.)	100	20.34	33.73	22.95	22.17	16.67
Total Revenue (in cr.)	175	67.42	99.35	76.99	57.13	66.30
Operating profit (in cr.)	131.25	56.88	79.3	54.75	42.96	50.51

Operating Profit Margin (%)	75.00%	84.36%	79.81%	71.11%	75.19%	76.17%
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If any company ventures out to buy a similar piece of land in Mumbai i.e. same size, with similar attributes, it would cost more than Rs 2500 crore. The huge capital requirement lends forward a major entry barrier. And yes, it's important for the company to buy the land with similar attributes; else it would anyway not pose any threat to NESCO.

*** - For FY 13, we have made the following assumptions:**

- 7% annualized growth in revenue for BEC with FY 11 as the base year.
- Rs 70 crores additional revenue from IT 3, thus a total of Rs 100 crore from IT Park and Realty.
- 75% operating profit margin against an average of 77% for the preceding 5 years.

Besides, the Indabrator and the Investments division also contribute in their own small way. We therefore expect the company to clock a total turnover of Rs 200 crores for FY 13 (Rs 15 crore from Indabrator + Rs 10 crore from Investments) and a PAT of Rs 90-95 crores with ~45% NPM (net profit margin).

Growth drivers and Valuations

Though NESCO has recorded a phenomenal growth during the last 5 years, we believe there's enough visibility for the next 5 years, largely because they still have much unutilized space. Till now, company has used up 35-40% of land available for development. So, the company can replicate the entire model with:

- Construction and leasing out of IT building 4 and IT Building 5
- Simultaneous expansion of BEC from 450,000 sq. ft. to 1,000,000 sq. ft.
- Year on Year increase in rents of IT Buildings and rates charged for hosting exhibitions
- Increase in FSI from 1 to 2 for the exhibition space.

Particulars	As At 30.09.2011 (Unaudited)	As At 30.09.2010 (Unaudited)	As At 31.03.2011 (Audited)
SHARE HOLDER'S FUND:			
(a) Capital	1,409.20	1,409.20	1,409.20
(b) Reserve and surplus	23,906.09	16,860.45	21,367.65
LOAN FUNDS	-	-	-
Deferred Tax Liability	85.82	97.19	85.82
TOTAL	25,401.11	18,366.84	22,862.67
FIXED ASSETS	11,599.27	6,188.58	11,329.46
INVESTMENTS	20,205.94	15,685.33	15,858.21
CURRENT ASSETS, LOANS AND ADVANCES			
a) Inventories	312.02	522.02	462.63
b) Sundry Debtors	622.17	1,103.09	951.37
c) Cash & Bank Balances	137.26	120.25	1,016.15
d) Other current assets	415.41	10.22	25.57
e) Loans and Advances	3,194.43	8,847.01	1,711.43
	4,681.29	10,602.59	4,167.15
Less: Current Liabilities and Provisions			
a) Liabilities	8,502.78	5,806.05	6,638.53
b) Provisions	2,582.61	8,303.61	1,853.62
	11,085.39	14,109.66	8,492.15
Net Current Assets	(6,404.10)	(3,507.07)	(4,325.00)

Normally for such a company one would expect a debt-laden balance sheet, like any other real estate company. However NESCO is a debt-free company with extraordinary operating profit margins of 75% and net profit margins of 45%. Besides being debt free, company is holding liquid investments and cash balances worth Rs 200 crores. The business model of a company ensures adequate liquidity and cheap source of funding as the licensees and exhibition companies pay it in advance for the booking of the space (refer negative value of net current assets i.e. working capital).

Valuation #1

At current market price, NESCO is available at a market capitalization of Rs 900 crores i.e. 9 times FY 13 (E) earnings and also the post tax free cash flows.

Accounting only for the operating business, with adjusted PAT of Rs 85 crore for FY 13, NESCO's operating business is available at 8 times $\{(900-200)/85\}$ one year forward earnings. This despite the fact that company can replicate the entire model (as described above) and as it intends to on the un-utilized land and more than double the free cash flow generating capacity of the company.

Valuation #2

Look at the other way round. In FY 11, Nesco delivered a pre-tax operating cash flow of Rs 100 crores. For FY 13, the company is expected to generate pre-tax operating cash flows of Rs 130 crores. At a discount rate of 12%, the present value being Rs 116 crores.

Consider this: At present pre-tax AAA bond yields are 10% p.a. If Nesco business was a AAA bond, and it paid Rs 116 crores a year in perpetuity, then the value of this non growing perpetuity alone, at present interest rates, would be Rs 1160 crores. One can therefore see that at a total market value of Rs 900 crores, the market is assuming that NESCO will record a decline in profitability over the subsequent years and assigning a negative value to the Rs 200 crore liquid investments while we are pretty sure that over the next 4-5 years, the profitability of the company should more than double.

Valuation #3

Assuming, on reading the above, your entrepreneurial stints get a dopamine boost and you set out to buy the entire company, how much will you have to shell out and what all will you get?

You will have to shell out Rs 900 crores (read: the current market capitalization). Obviously, this is hypothetical because the promoters hold 62% stake and would not sell their stake at current rates as they know the real worth.

Persisting with our imaginary world where the promoters sell their stake at current rates, you shall get the following for 900 crores:

- 3 IT buildings with approx. 1,000,000 sq. ft. space (avg. value of Rs 12,000 per sq. ft., considering the location) worth Rs 1200 crores.
- An exhibition centre with 450,000 sq. ft. space,
- 35 acres of undeveloped land worth Rs 1400 crores.
- Liquid Mutual fund investments worth Rs 200 crores.

Thus, market is valuing the company at a discount of 70% to the net present value of the company.

Risks & Concerns

1. 5 years down the line, NESCO would probably run out of surplus space for development and thus there's lack of clarity with respect to growth outlook, post development of available land bank. Though, 5 years is a long period with respect to any business, as the business dynamics change very rapidly these days, however in NESCO's case it's much more evident.
2. These days' promoters are engaging in transactions where the business units are being sold at great premium to prevailing market caps; however minority shareholders are left holding pennies on account of lack of clarity on use of cash available with the company (ex. Eon electric, Numeric power, Smart link, etc). In case of NESCO, promoters can well engage in a transaction and sell the land parcel at say 3000 crores, while pay just a fraction of it in the form of special dividend and retain the rest of the cash with the company for the development of Indabrador business (the business which landed in BIFR in 1980s).

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Katalyst Wealth **Alpha Portfolio** service is focused on helping individual investors/institutions beat market returns by a wide margin without taking large risks through in-depth research, analysis and follow up on the stock.

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