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India Research

18 Jan 2005

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Important disclosure on the last page

NESCO Ltd

Implication of Reliance-BKC deal

NESCO Ltd, a company with trailing adjusted net profit of Rs.129mn, is in the business of realty. It licenses out office space and runs an exhibition-cum-convention centre on its 65-acre (2.83mn sq. ft.) estate in Mumbai. It also manufactures surface preparation & forging equipments. All its business segments are witnessing rising business. It's expanding in both the segments of realty, getting into catering (a related diversification), and also forward integrating into organising exhibitions & trade fairs.

DCF Value: under revision

Price Rs.1335

Implication of Reliance Industries' bid for Bandra-Kurla Property

NESCO Ltd is up 76% to Rs.1335 in a month since our recommendation on 16 Dec 05 at Rs.758. We had estimated fair value at Rs.1430 per share. However, today's Reliance-BKC deal has positive implication for it. We are considering upward revision in our fair value estimate.

Reliance Industries Ltd bid highest for an 18.5 acre plot in Mumbai's Bandra Kurla Complex (BKC) from MMRDA for Rs.1104.1 crore. This plot is earmarked for a Convention, Exhibition & Commercial (CE&C) complex. Other bids for the property were at 1011.1 crore, 1011 crore, 1050 crore and 911.1 crore from Reliance Infrastructure (ADAE group), Gammon India, DLF, and Emmar Group of Dubai respectively.

All these top bids were within a narrow range of 20% implying that the consensus price is Rs.900 crore plus. At Rs.900 crore, the property is valued at Rs.49 crore per acre.

NESCO Ltd has a 65-acre property on Western Express Highway at Goregaon, Mumbai with Convention, Exhibition, & Commercial (CE&C) complex already built on part of the property. BKC & NESCO properties are equidistant from Mumbai Airport and are about 30 minutes' drive apart. Even assuming a 50% discount for NESCO property as compared to BKC i.e. at around Rs.25 crore per acre, the value of the property alone works out to Rs.1575 cr. The value of CE&C and other businesses is not included here. The company is debt free and has surplus funds. Its Market cap (17 Jan 06) is Rs.470 crore only. Enterprise value is lower than Rs.470 crore, as company has surplus funds with no debt. The per share value of real estate alone works out to Rs.4,471. The current market price per share is only Rs.1,335.



Income Statement

Rs. Mn.	Mar-06E	Mar-07P	Mar-08P
No. of months:	12	12	12
Revenues	379	530	848
EBIT	177	304	582
PBT	173	303	603
Adj. PAT	115	201	400
EPS (Rs.) (diluted)	32.75	57.17	113.70

Ratios

No. of months:	Mar-06E	Mar-07P	Mar-08P
12	12	12	12
Revenue Growth %	37.3	36.1	63.7
EPS Growth %	82.9	74.6	98.9
RoE %	73.6	65.9	67.9
D/E x	0.2	-	-
Cust Advnc days-Mfg	55	55	55
Inventory days-Mfg	119	119	119
Advance Rentals days	502	502	502
Suppliers Credit days	107	107	107

Balance Sheets

Rs. Mn.	Mar-06E	Mar-07P	Mar-08P
Assets			
Net Block	369	479	679
Net Current Assets	(101)	(110)	(393)
Excess Cash & Equiv.	-	88	583
Liabilities			
Equity Capital	35	35	35
Reserves	243	428	796
Preference Capital	0	0	0
Debt	33	0	0
Non-Current Liab.	18	35	58

Half Yearly Performance

Rs. Mn.	Sep-05	Mar-05	Sep-04
No. of months:	6	6	6
BEC Revenues	58	98	11
Realty	42	33	22
Engineering	81	50	25
Total Net Revenues	185	170	58
EBITDA	98	68	15
Depreciation	13	6	4
EBIT	85	58	11
Interest	1	4	4
Other Income	-	-	-
PBT	83	58	7
Tax ~	13	-	-
PAT Adjusted	71	58	7
Equity Capital	35	35	35
EPS -annualised (Rs.)	40.11	33.05	5.24

~ Co didn't provide tax for HYE Sep-05. Tax is our estimate.

Half Yearly Ratios

%	Sep-05	Mar-05	Sep-04
No. of months:	6	6	6
EBITDA / Sales	39.7	39.7	18.1
EBIT / Sales	43.6	36.2	11.2
Tax/PBT	20.8	0.0	0.0
BEC & Realty EBIT %	147.3	112.5	116.7
Engineering EBIT %	16.4	-97.8	-8.7

Multiple Valuation

	Mar-06E	Mar-07P	Mar-08P
EV/EBITDA x	12.5	7.8	4.3
EV/EBIT x	15.0	8.8	4.6
Mkt. Cap/Sales x	7.0	5.0	3.1
P/E x	23.1	13.3	6.7
Price/Book x	18.6	7.6	3.6

Free Cash Flow

Rs. Mn.	Mar-06E	Mar-07P	Mar-08P
No. of months	12	12	12
NOPLAT	118	202	386
Change in Net Working Capital	19	(2)	(267)
Operating Cash Flows	99	204	654
Net Capex & others	165	73	157
Free Cash Flow	(67)	131	497
Non-opr. Cash flow	1	2	14
Cash Flow to Investors	(65)	133	511

Financing Cash Flow

Rs. Mn	Mar-06E	Mar-07P	Mar-08P
No. of months:	12	12	12
Post-tax Interest	4	2	-
Repayment/ (issue) of Debt	(7)	33	-
Equity Share	4	9	16
Dividend	-	-	-
Buyback/Redn/ (issue) of equity shares	-	-	-
Increase in excess cash	(67)	88	495
Financing Cash Flow	(65)	133	511

DCF Valuation

	Rs. Mn.	%
Key Assumptions		
Terminal Growth Rate		2.5
WACC		14.8
Cost of Equity		14.8
Terminal ROIC		29.8
Fair Value Range (Rs.) 1 yr out	1215 - 1860	
Per share Value (Rs.) 1 yr out	1430	
Stress Value per share (Rs.) 1 yr out	1020	

For a detailed report & regular updates on the company, please get in touch with us.
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