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India Research

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Important disclosure on the last page

NESCO Ltd

www.nesco.in

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 Rs.1430

Price Rs.758

+82%

The stock currently trades at 13.3 times and 6.7 times the estimated fully diluted EPS for FY07 and FY08 respectively. We expect the fully diluted EPS to grow at 75% to Rs.57 in FY07 and 99% to Rs.114 in FY08. We estimate one-year out DCF value at around Rs.1380 (CoE & WACC 14.7%). Our DCF value point estimate is 12.6 times the estimated EPS of Rs.113 for FY08.

Key Data (16 Dec 2005)

Market Cap	Rs.2,668 mn US\$58mn
Shares Outstanding	3.52mn
52 week High-Low	Rs.1031 / Rs.104
Average Daily Volume	No. of shares
BSE 365 days	3,280
BSE 30 days	3,305
BSE Scrip Code	505,355
BSE Group	B2

Shareholding % 30 Sep 05

Promoters	62.04
Institutions	3.59
Others	34.37

Multiple Valuation YE Mar-08E

EV/EBITDA	4.3x
EV/ EBIT	4.6x
Market Cap/Sales	3.1x
P/E	6.7x
P/BV	3.6x

Key Highlights

- Exhibition revenues to grow over 70% in FY07 based on advanced bookings.
- FY08 Realty revenue to grow 3-fold due to commissioning of 500,000 sq.ft. IT Tower.

Key Investment Points

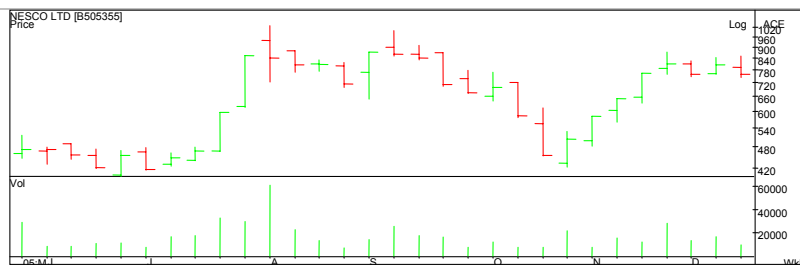
- NESCO Ltd has a sprawling real estate of 65 acres (2.83mn sq ft) on Western Express Highway in Goregaon, a north-western suburb of Mumbai. More than half of which is currently unutilised.
- It has built up office complexes on the estate and leases out these. Current lessees include eServe, Schlumberger, Whirlpool, Sodexo, Star India, Sebcorp Singapore.
- It is now constructing a 10-storey IT Tower with 500,000 sq.ft space to be given on lease to IT companies.
- It has built-up India's largest private sector exhibition-cum-convention centre on the estate. Second only to Pragati Maidan of Delhi in size, it occupies 450,000 sq.ft area.
- Exhibition centre has already done an impressive advance booking extending to FY08.

Value Kickers

- Forward integration into organising exhibition & trade fairs.
- Related diversification into catering to serve exhibition & convention participants.
- Any further profitable utilisation of over half the 65-acre estate
- Possibility of an outsourcing contract in surface preparation business from technical collaborator.

Points of Concern

- Convention centres of star hotels have an edge over stand alone convention centres like NESCO. The related diversification into catering will blunt that edge to some extent.
- Exhibition business is closely linked to economic growth in India.





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
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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