

**NESCO Ltd**

₹ 646

**IT1..IT2..IT3..IT4... & Building****Buy**

Aug 10, 2012

**Company Background**

Established in 1939 as the New Standard Engineering Co. Ltd., the company is known as a pioneer in the tool manufacturing segment, as it brought into the country, world class processes and designs for the manufacture of a number of engineering products. Equipment such as forging hammers and presses, blowroom lines and high production cards for the textile industry; and sucker rod pumps for on-shore oil recovery were some of the main product lines that emerged as market leaders. As the products manufactured were high in quality, the company soon saw an incremental rise in its exports.

**Key Highlights**

- ➔ NESCO is in the initial stage of considering expansion of Bombay Convention & Exhibition Centre and they come up with a new Building every year in the biggest landbank held by any company in the Western Suburbs.
- ➔ The IT building 3 is now completed & is expected to start generating revenue from the current financial year. Company expects significant growth in revenues in 2013-14. NESCO has initiated steps to secure required approvals for starting construction of IT building 4, admeasuring about 12,00,000 sq ft, which has been designed by a leading American architects firm. Cost of construction is expected to be met through internal resources.
- ➔ Over 116 conventions & exhibitions were held in Bombay Convention & Exhibition Centre last FY, of which 48 were new clients, including Engineering Export Promotion Council, The Energy Resources Institution and Images Multimedia. Over 11,46,400 persons visited BCEC, out of which over 480,000 were from out of Mumbai/abroad. BCEC is the venue which brings more visitors to Mumbai than any other venue.
- ➔ NESCO has been continuously investing in developing new products and technologies. The company is investing in construction of a new building and other capital expenditure to set up a Research and Development Centre for Indabrator, its Industrial Capital Goods Division. Construction of this new building is progressing well, besides several new equipment and facilities will also be installed.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11
Revenue (INR mn)	962.8	1,198.1	1,448.7
<b>Rev. growth (%)</b>	<b>(8.63)</b>	<b>24.44</b>	<b>20.92</b>
EBITDA (INR mn)	536.9	832.7	1,042.4
Net profit (INR mn)	329.0	549.8	686.2
Shares outstanding (mn)	7.1	7.1	14.1
EPS (INR)	46.7	78.0	48.7
<b>EPS growth (%)</b>	<b>(10.45)</b>	<b>67.11</b>	<b>(37.55)</b>
P/E (x)	4.4	6.7	9.6
EV/ EBITDA	3.0	4.4	6.3
<b>ROCE (%)</b>	<b>34.55</b>	<b>39.54</b>	<b>36.18</b>

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**Info Codes**

Reuters	: NSEN.BO
Bloomberg	: NSE@IN
NSE	: NESCO
BSE	: 505355

**Market Data**

52 Wk Range (₹)	: 775 / 500
Shares in Issue (mn)	: 14.1
Mkt. Cap (₹ bn)	: 9.07
BSE 2 Wk Avg Vol	: 7612

**Share Holding Pattern (%)**

Promoters	: 62.03
DII's	: 02.27
FII's	: 01.75
Others	: 33.95

**Investment Theme**

NESCO is first to bring into India, world class manufacturing process and product designs for Forging tools and pumps for on-shore oil recovery. It has first Private Exhibition Center located in the heart of Mumbai, just adjacent to the Western Express Highway, which serves as an important arterial road transporting goods to and from the City. NESCO is 100% Debt free with good cash reserves. Its Exhibition Centre is driven to emerge as a purpose-built Convention & Exhibition Centre offering organizers, participants and visitors, a touch of Indian hospitality backed up by robust infrastructure for any event. The Engineering Group delivers stable and functional tools which delivers customer satisfaction and trust, backed up by a constant improvement in design, cost efficiency, & post sale service.

**Debt Free Commercial Space Builders**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	886.8	1041.3	17.42	1356.8	30.30
Other Income	108.0	177.3	64.17	106.8	(39.76)
Change in Stocks	2.8	(15.9)	(667.86)	7.2	(145.28)
Raw Material Con.	171.2	94.8	(44.63)	124.0	30.80
Employee Exp.	62.0	73.8	19.03	77.7	5.28
Indirect Taxes	48.4	59.9	23.76	33.8	(43.57)
Other Exp.	179.1	141.5	(20.99)	192.9	36.33
Operating Exp.	457.9	385.9	(15.72)	421.2	9.15
Operating Profit	428.9	655.4	52.81	935.6	42.75
Total Interest	23.0	15.0	(34.78)	7.1	(52.67)
Gross Profit	513.9	817.7	59.12	1035.3	26.61
Net Dep.	47.1	40.3	(14.44)	34.7	(13.90)
Total Taxation	137.8	227.6	65.17	314.4	38.14
Net Profit/Loss	329.0	549.8	67.11	686.2	24.81

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 08	Mar 09	Mar 10	Mar 11
<b>SOURCES OF FUNDS</b>	<b>723.4</b>	<b>1,210.7</b>	<b>1,580.0</b>	<b>2,212.8</b>
Equity Share capital	70.5	70.5	70.5	140.9
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	652.9	972.0	1,509.5	2,071.9
Secured Loans	0.0	168.2	0.0	0.0
Unsecured Loans	0.0	0.0	0.0	0.0
<b>USES OF FUNDS</b>	<b>723.4</b>	<b>1,210.7</b>	<b>1,580.0</b>	<b>2,212.8</b>
Gross Block	566.1	623.7	566.0	634.7
Less : Revaluation Reserves	66.6	66.0	65.4	64.9
Less : Accumulated Depreciation	283.5	304.7	269.7	292.7
Net Block	216.0	253.0	230.9	277.1
Capital Work in Progress	38.5	203.6	503.0	899.1
Investments	938.7	1,105.6	1,336.8	1,585.8
Current Assets	493.0	683.6	258.7	309.7
Less : Current Liabilities	982.5	1,044.9	749.4	858.9
Total Net Current Assets	(489.5)	(361.3)	(490.7)	(549.2)
Misc. Expenses not written	19.7	9.8	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	0.4	0.3	0.3	0.3
Mkt Val. Quoted Investments	917.7	1,023.4	1,314.4	1,587.5
Contingent Liabilities	81.0	936.9	305.2	356.3
Dividend (%)	12	12	15	25

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 11	Dec 11	Mar 12	Jun 12
Net Sales	347.90	380.10	395.90	189.90
Cost Of Sales	80.30	88.20	103.50	70.00
Operating Profit	267.60	291.90	292.40	119.90
Recurring Income	0.00	0.00	44.10	66.50
Adjusted PBDIT	267.60	291.90	336.50	186.40
Financial Expenses	3.50	5.40	4.10	1.80
Depreciation	5.90	6.00	16.50	11.00
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	258.20	280.50	315.90	173.60
Tax Charges	79.30	85.00	91.90	50.00
Adjusted PAT	178.90	195.50	224.00	123.60
Non Recurring Items	(0.20)	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	178.70	195.50	224.00	123.60

52 Week Index Relative Percentage Appreciation



NESCO vs SENSEX

Points to Ponder

Forbes Asia September 2011 issue has published a list of “200 Best Under A Billion” Companies in Asia. Nesco is one of the Companies in the list. The 'Best Under A Billion' list is chosen from nearly 15,000 publicly-listed Asia-Pacific companies with actively traded shares and having annual revenues in the range of \$5 million - \$ 1 billion and are publicly traded for at least a year. The selection of the best 200 companies is based on earnings growth, sales growth, and shareholders return on equity in the past 12 months and over three years. Nesco was included amongst top India Inc 500 Club- India's best performing mid-sized companies.

Risks Associated

It was a challenging year for the Indian economy. Due to high inflation, there was increase in cost of funds. There was decline in infrastructure, power & other projects and in industrial investment. Delay in policy decisions further adversely affected the domestic economic growth. Debt crisis in Europe and other global issues also affected the Indian economy, which slowed down reporting a growth of 6.10%, lowest during the last 9 years. These factors affected demand for IT space and for capital goods. If the scenario stays away it will affect the Company Revenues.



**In a Nutshell**

Nesco is a well diversified company manufacturing textile spinning machinery, forging equipment, abrasives & onshore oil recovery equipment with technology from world's leading corporations. Today, the Engineering Group of Nesco continues to be a leading provider of this equipment to the Indian Railways, numerous Ordnance Factories, and Forging Plants. While the company originally operated from Byculla, and set up two more plants at Parel and Santacruz. In 1959 it consolidated all these three operations and moved to a 70 acre estate on the Western Express Highway at Goregaon in Mumbai. In 1986, the company diversified into the realty business by developing and providing customized built-up space for multinational companies and leading corporates at Goregaon. In 1992, the company setup an exhibition centre - known as the Bombay Exhibition Centre - at its complex on the Western Express Highway at Goregaon, Mumbai. Starting with a hall area of 2,00,000 sq. ft., this has now been expanded to over 5,00,000 sq. ft. This venue, holds the distinction of being the largest exhibition center promoted by the private sector in India and has hosted over 500 national and international exhibitions, trade fairs, events since inception. What Sets this Venue apart from the rest, is the presence of various permanently air conditioned hall's ranging from an area of 2,000 Sq. Mts to 20,000 Sq. Mts. The company currently holds the biggest landbank in the western suburbs.

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**Rating Interpretation**

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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