NESCO Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Nesco operates a high-moat business model centered on Mumbai-based IT annuity income and a dominant exhibition segment (BEC), currently transitioning into a service-led ecosystem.**	Positive
2	**Revenue surged 61.8% YoY to □546 Cr, primarily catalyzed by an 825% recovery in the Bombay Exhibition Center segment as operations normalized post-pandemic.**	Positive
3	**Operating Profit Margins expanded to 67%, demonstrating significant operating leverage, although FY23 profitability was dampened by a □18.68 Cr non-recurring loss on asset sales.**	Positive
4	**The company maintains a fortress balance sheet with zero debt and a massive treasury chest of □1,161 Cr held in liquid investments.**	Positive
5	**Cash flow from operations (CFO) reached □297 Cr, representing 102% of PAT and confirming high-quality earnings supported by a negative cash conversion cycle of -12 days.**	Positive
6	***Capital allocation remains highly conservative, with 171% of CFO directed toward financial investments rather than core business capex, which stood at only 12 Cr.***	Neutral
7	***Earnings quality is slightly diluted by treasury dependence, with approximately 21% of PAT derived from investment income rather than core operations.***	Neutral
8	***Governance standards are under pressure following a secretarial lapse regarding a director's re-appointment and a 54% decline in median employee pay despite a 60-75% hike for executives.***	Negative
9	***The fair value of investment properties is estimated at 3,662 Cr, providing a massive valuation cushion at 56x the current carrying book value.***	Positive
10	***Strategic risks are intensifying due to "notable competition" from new convention centers (e.g., Jio World) and a 38% rise in contingent liabilities to 45 Cr.***	Negative
11	**The outlook remains constructive as the company sweats its high-value land bank, with a bull case predicated on the successful monetization of remaining FSI.**	Positive
12	**Investment View: ACCUMULATE; key monitorables include BEC revenue staying above □140 Cr and the resolution of the □20.44 Cr property tax dispute.**	Positive

1. Business overview (In Bullet Points)

- **Business Segments:** Nesco operates a diversified model with four distinct verticals: **Nesco IT Park** (Leasing), Bombay Exhibition Center (BEC) (Event Infrastructure), Nesco Foods (Hospitality), and Indabrator (Engineering).
- **Revenue Drivers:** Primary drivers include the monetization of floor space index (FSI) through IT Park leasing and exhibition rentals. The IT Park provides stable annuity income, while BEC offers high operating leverage.
- **Cost Drivers:** Key costs include power and fuel (surged 221% due to BEC recovery), contract manpower, and property maintenance.
- **Industry Position:** Holds a dominant position in Mumbai's private exhibition space but faces increasing competition from new convention centers (e.g., Jio World Convention Centre).

- **Expansion Plans:** Focus is on high-yield internal projects, including the 'Restaurants and Outlets' (R&O) sub-division and expanding lifestyle amenities to maintain IT Park tenant retention.
- **Acquisitions & Capacity:** No aggressive external acquisitions; capital is deployed into internal infrastructure. Indabrator is shifting to a 3-shift production cycle to reach a 500 MT/month capacity for abrasives.
- **Segment Performance:** BEC saw a massive 825.4% recovery post-pandemic; IT Park maintained high occupancy (Tower 4 at 97%); Nesco Foods grew 225.6% following the launch of new retail outlets.
- **Geographical Presence:** Centered around a high-value land bank in Goregaon, Mumbai, with engineering manufacturing facilities in Karamsad, Gujarat.

2. Management commentary & outlook

- Management is pivoting Nesco from a pure space provider to an integrated service ecosystem, capturing more "wallet spend" through the new 'Restaurant and Outlets' division.
- Strategic alliances with global brands like Subway and Domino’s are being used to de-risk rental income and build a lifestyle ecosystem.
- The demand environment is viewed as highly optimistic; Tower 4 occupancy is at 97%, and there is a significant "pandemic-induced backlog" for social and exhibition events.
- In the Indabrator segment, management is shifting focus toward exports and high-value "Plate Preservation Lines" to move away from commoditized engineering products.
- Management acknowledges "notable competition" in the Mumbai exhibition market and plans to counter this with aggressive marketing and high service standards.
- The company remains committed to a debt-free, cash-rich status, with liquid resources totaling □1,178.79 Cr.
- A significant administrative "omission" occurred regarding the timely re-appointment of Independent Director Manu M. Parpia, as noted in the Secretarial Audit.
- There is a stark divergence in compensation: the CMD’s remuneration rose by 59.67% and the CFO’s by 77.43%, while median employee remuneration decreased by 54%.
- **Management Tone: Confident and Opportunistic, yet Administratively Strained.** Management exhibits high confidence in the "buoyant market upcycle" and is successfully pivoting toward a service-led hospitality model. However, the administrative lapse in director re-appointment and the divergence between executive pay and median employee compensation suggest potential friction in internal administrative rigor and governance alignment.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	546	337
Sales Growth %	61.83	15.91
Expenses	179	117
Material Cost %	6.57	7.62
Raw material cost	37	25
Change in inventory	-2	0
Manufacturing Cost %	11.46	9.18
Employee Cost %	5.02	6.39
Other Cost %	9.66	11.52
Operating Profit	367	220
OPM %	67	65
Other Income	45	44
Exceptional items	-20	-4
Other income normal	65	48
Interest	12	9
Depreciation	33	28
Profit before tax	367	226
Tax %	21	16
Net Profit	291	189
Exceptional items AT	-16	-3
Profit excl Excep	306	193
Profit for PE	306	193
Profit for EPS	291	189
Profit Growth %	59	12
EPS (□)	41.25	26.85
Dividend Payout %	11	11

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	14	14
Reserves	1,950	1,684
Borrowings	0	1
Lease Liabilities	0	1
Other Borrowings	0	0
Other Liabilities	298	273
Trade Payables	14	9
Advance from Customers	33	31
Other liability items	250	234
Total Liabilities	2,263	1,972
Fixed Assets	804	846
Land	7.12	7.12
Building	121.41	138.61
Plant Machinery	47.17	43.95
Equipments	0	0
Furniture n fittings	25.79	21.94
Vehicles	2.33	3.65
Intangible Assets	0	0
Other fixed assets	741.12	741.85
Gross Block	944.94	957.12
Accumulated Depreciation	140.84	110.66
CWIP	86	82
Investments	1,161	846
Other Assets	212	197
Inventories	12	8
Trade receivables	23	19
Receivables over 6m	3.19	2.57
Receivables under 6m	21.09	17.40
Prov for Doubtful	-1.66	-1.34
Cash Equivalents	18	10
Loans n Advances	8	6
Other asset items	152	155
Total Assets	2,263	1,972

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	297	163
Profit from operations	367	204
Receivables	-6	9
Inventory	-4	0
Payables	7	-2
Other WC items	9	-4
Working capital changes	6	3
Direct taxes	-76	-44
Other operating items	0	0
Cash from Investing Activity	-268	-142
Fixed assets purchased	-12	-149
Fixed assets sold	0	0
Investments purchased	-508	-565
Investments sold	218	548
Investment income	0	0
Interest received	38	22
Dividends received	0	0
Other investing items	-2	0
Cash from Financing Activity	-24	-21
Proceeds from borrowings	0	0.60
Interest paid fin	-2.38	-0.11
Dividends paid	-21.14	-21.14
Financial liabilities	-0.15	0
Other financing items	0	0
Net Cash Flow	5	0
Free Cash Flow	284	14
CFO/OP	101	94

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	15	20
Inventory Days	119	107
Days Payable	147	126
Cash Conversion Cycle	-12	1
Working Capital Days	2	2
ROCE %	22	15

3.2 Financial analysis summary

- **Revenue** from operations surged 61.83% to ₹546.00 Cr, primarily driven by the massive recovery in the Bombay Exhibition Center (BEC) segment which grew from ₹16.18 Cr to ₹155.83 Cr as operations normalized post-pandemic.
- **Operating Profit** grew to ₹367.00 Cr with OPM % expanding to 67.00%, despite a 221% spike in power and fuel costs to ₹18.25 Cr and a significant non-recurring Other Expense of ₹18.68 Cr from a Loss on Sale of Asset.
- **CFO** of ₹297.00 Cr demonstrates exceptional earnings quality, representing 102% of PAT, as Trade Receivables on the Balance Sheet only grew 21.5% to ₹23.00 Cr despite the 61.83% Revenue growth.
- The company maintains a fortress **Balance Sheet** with Total Debt at ₹0.00 Cr and Investments increasing to ₹1,161.00 Cr, which generated ₹65.00 Cr in normal Other Income.
- **Working Capital** efficiency is highlighted by a negative Cash Conversion Cycle of -12 days, as Trade Payables of ₹14.00 Cr and Advance from Customers of ₹33.00 Cr effectively fund the ₹12.00 Cr Inventory and ₹23.00 Cr Trade Receivables.
- **Fixed Assets** decreased to ₹804.00 Cr as Depreciation of ₹33.00 Cr outpaced a modest Capex of ₹12.00 Cr, but the Balance Sheet significantly understates asset value as Investment Properties have a fair value of ₹3,662.18 Cr compared to a carrying cost of just ₹65.30 Cr.
- **ROCE %** improved from 15.00% to 22.00% as the recovery in BEC occupancy allowed for higher asset sweating, while Free Cash Flow reached ₹284.00 Cr, providing 13x coverage for the ₹21.14 Cr Dividends paid.
- **Net Worth** reached ₹1,964.00 Cr, and while ROE % improved to 14.82%, it remains lower than ROCE % due to the large cash and Investments balance (₹1,161.00 Cr) earning lower treasury returns.
- **Other Assets** saw a sharp spike in "Other Receivables" to ₹56.94 Cr, reflecting the rapid scaling of the BEC and Foods business where short-term accruals are common.
- **Other Liabilities** are dominated by Security Deposits of ₹120.08 Cr (Non-Current) and ₹32.19 Cr (Current), representing a stable, interest-free source of long-term funding from IT Park tenants.
- **Other Expenses** were impacted by a ₹18.68 Cr Loss on Sale of Asset, which acted as a one-time drag on profitability, alongside increased Commission Brokerage of ₹9.80 Cr.
- The dominant financial theme of the year is the **powerful post-pandemic operational recovery of the Exhibition segment, which, combined with a debt-free balance sheet and massive hidden asset value, has translated into record cash flow generation and improved return ratios.**

3.3 Contingent liabilities & commitments

- **Claims not acknowledged as debt:** ₹45.00 Cr (increased 38% YoY), representing significant legal exposures not provisioned.
- **Property Tax Dispute:** A specific dispute with MCGM involves a demand of ₹20.44 Cr. The company has paid ₹4.25 Cr under dispute and provided only ₹0.75 Cr.
- **Capital Commitments:** ₹34.39 Cr in unexecuted contracts for expansion/refurbishment of IT Park/Exhibition facilities.
- **Disputed Income Tax Demands:** ₹1.57 Cr.
- **Bank Guarantees:** ₹7.57 Cr, fully secured by a lien on Mutual Funds (FMPs) valued at ₹10.94 Cr.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↑ — strong cash conversion; CFO of □297 Cr exceeds PAT of □291 Cr.	—	High quality earnings; CFO/OP ratio improved to 101% from 94% YoY.
2	Receivables & channel-stuffing signal	Revenue ↑ — efficient collections; combined asset growth of 25% lags 62% sales growth.	—	Note 12: Gross receivables grew only 21.5% despite massive 61.8% revenue jump.
3	Revenue timing (unbilled/advances)	Revenue ↑↓ — straight-lining risk; unearned lease income derecognized due to contract modifications.	—	Note 40 & KAM 1: Straight-lining adjustments and management judgment in lease modifications.
4	Revenue from related parties %	Neutral — negligible RPT revenue; brokerage income from related party is immaterial.	—	Note 42: Related party transactions primarily involve remuneration and minor brokerage/rent.
5	Inventory vs revenue growth	Profit ↑ — manufacturing scale-up; inventory grew 50% to support Industrial division recovery.	—	Note 11: Inventory increase primarily in Industrial Capital Goods division for anticipated orders.
6	Inventory valuation method change	Neutral — consistent policy; lower of cost or NRV applied across all periods.	—	Note 2(g): Standard valuation; raw materials not written down if finished goods profitable.
7	Exceptional items in operating profit	Profit ↓ — non-recurring drag; □18.68 Cr loss on asset sale suppressed margins.	—	Note 32: Material non-operating loss on sale of assets impacted current year profitability.
8	Depreciation rate vs useful life policy	Profit ↑ — hidden asset value; fair value of property 56x carrying value.	—	Note 2(b): Investment properties carried at cost; massive valuation buffer exists over book.
9	Provision reversals boosting PAT	Profit ↑ — conservative provisioning; allowance for doubtful debts increased slightly YoY.	—	Note 2(h): Lifetime ECL model applied; no aggressive reversal used to boost PAT.
10	Tax rate consistency	Profit ↑ — tax efficiency; effective rate 21% vs statutory 25% via exemptions.	—	Note 51: Lower tax due to "Income from House Property" and treasury gains.
11	CWIP age and stalling projects	Neutral — active expansion; 98% of CWIP is less than one year old.	—	Forensic Check: No evidence of "evergreening" or stalled projects in the IT Park.
12	Deferred tax asset recognition	Neutral — minimal impact; company maintains a net deferred tax liability position.	—	Forensic Check: Tax treatment consistent with rental and treasury income streams.
13	RPT quantum and trend	Profit ↓ — high management cost; CMD remuneration grew 60% tracking profit growth.	—	Note 42: Remuneration tracks performance but remains a significant discretionary expense item.
14	Dividend paid vs FCF adequacy	Profit ↑ — high liquidity; □21 Cr dividend easily covered by □284 Cr FCF.	—	Payout ratio 11%; massive cash/ investment buffer of □1,161 Cr supports future payouts.
15	Auditor KAM: Lease Recognition	Revenue ↑↓ — Accuracy of straight-lining lease rentals and impact of contract modifications.	—	High degree of management judgment required in lease modifications.
16	Treasury Income Dependency	Profit ↑↓ — PAT sensitivity to market volatility; Other Income is 21.7% of bottom line.	—	Earnings quality is sensitive to MTM gains/losses on □1,161 Cr investment portfolio.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. * **KAM 1: Lease Rental Income Recognition:** Auditor flagged risks regarding the accuracy of straight-lining lease rentals and the impact of contract modifications. Management responded that revenue is recognized per Ind AS 116 and internal controls ensure lease terms are captured accurately. * **KAM 2: Property Tax Contingent Liability:** Concerns regarding a retrospective property tax dispute with MCGM (□20.44 Cr). Management maintains that based on legal advice, the current provision of □0.75 Cr is adequate. * **Internal Financial Controls:** Reported as adequate and operating effectively.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | ------- | ---------- | -------- | ---------- | --------- | | Krishna S. Patel | CMD (Promoter) | Remuneration | 8.71 Cr | ***59.8% YoY increase*** | | Dipesh R. Singhania | CFO | Remuneration | 1.14 Cr | **77.4% YoY increase** | | Estate of Late Sumant J. Patel | Promoter Group | Rent Paid | 0.18 Cr | Potential tunneling | | Chandler and Price | Associate | Brokerage Income | 0.21 Cr | Minor | | Nesco Foundation | Section 8 Co | CSR Expense | 0.12 Cr | Captive CSR spending | | Krishna S. Patel | CMD (Promoter) | Payable (Comm.) | 4.22 Cr | High accrued liability |

- **RPT Verdict:** Monitor. While the scale of RPT is low relative to revenue (1.90%), the sharp spike in KMP compensation and family-linked rental payments require scrutiny.

C. Shareholding | Shareholder category | Mar 2023 (%) | Mar 2022 (%) | | :---------- | ----------: | ----------: | | Promoters | 68.54 | 68.54 | | FIIs | 3.39 | 3.12 | | DIIs | 4.13 | 3.51 | | Public | 23.94 | 24.83 |

- **Pledged shares:** 0.00%.

D. Board Composition + KMP Compensation * **Total Directors:** 6 (66.67% Independent). * **Women Directors:** 2 (**Sudha S. Patel**, Amrita Verma Chowdhury). * **Family Relations: Krishna S. Patel** (CMD) is the son of Sudha S. Patel (Non-Executive Director). * **Compensation Analysis:** CMD pay growth (59.82%) is aligned with EBITDA growth (66.82%). However, CFO pay rose 75.38%, significantly outpacing median employee remuneration which fell by 54%.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal | | :------- | ----------: | ----------: | :--------- | :------- | | Dividends | 21.14 Cr | 21.14 Cr | 7.12% | — | | Capex | 12.00 Cr | 149.00 Cr | 4.04% | — | | Investments (Financial) | 508.00 Cr | 565.00 Cr | 171.04% | — | | Net Debt Change | 0.00 Cr | -1.00 Cr | 0.00% | — |

- **CFO Coverage of Capex:** CFO (297 Cr) is 24.75x Capex (12 Cr), indicating massive self-funding capacity.
- **Nature of Capex:** Primarily maintenance and minor expansion (□6.66 Cr for Nesco Foods).
- **Deployment Efficiency:** Revenue grew 61.8% while Capex dropped 92%, suggesting the company is **sweating existing assets** post-pandemic.
- **Key Takeaways:** The company is effectively a "cash cow," but 171% of CFO is being diverted into financial investments rather than core business expansion.

H. Risks * **Competition (High):** Launch of new convention centers in Mumbai introduces notable competition for BEC. * **Market Volatility (Medium):** Treasury portfolio in MFs/Bonds; mark-to-market losses could hit PAT. * **Litigation (Medium):** MCGM Property Tax Dispute (□20.44 Cr) and claims not acknowledged as debt (□45.00 Cr). * **Concentration (Medium):** Single-location risk for IT Park and BEC in Goregaon.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	Tower 4 at 97% occupancy; BEC revenue up 825%.	Strong moat in Mumbai exhibition space with high-quality IT annuity.
Financial health	5	↑	D/E 0.0x; CFO ₹297 Cr > PAT ₹291 Cr.	Debt-free with massive cash reserves and excellent cash conversion.
Earnings quality	4	↑	Receivables growth (21.5%) < Revenue growth (61.8%).	High-quality cash-based recovery, though 21% of PAT is treasury-linked.
Management & governance	3	↓	54% drop in median pay; Director re-appointment lapse.	Strong operational execution marred by administrative lapses and pay disparity.
Capital allocation	3	→	₹1,161 Cr in treasury; Capex only ₹12 Cr.	Cash-rich but hoarding capital in low-yield investments rather than core growth.

Business positives (for this company this year) * **Massive BEC Recovery:** Segment revenue grew 825% to ₹155.83 Cr as exhibitions normalized. * **Exceptional Cash Conversion:** CFO of ₹297 Cr represents 102% of PAT, driven by efficient collections. * **Fortress Balance Sheet:** Zero debt with ₹1,161 Cr in liquid investments and cash. * **Hidden Asset Value:** Investment properties fair value (₹3,662 Cr) is 56x the carrying book value. * **Negative Working Capital:** Cash conversion cycle improved to -12 days, signaling high bargaining power.

Business negatives / concerns (for this company this year) * **Competitive Intensity:** Management explicitly flagged "notable competition" from new convention centers. * **Governance Lapses:** Secretarial audit noted an "omission" in the timely re-appointment of an Independent Director. * **Pay Disparity:** Executive pay rose ~60-75% while median employee remuneration fell by 54%. * **Contingent Liabilities:** Claims not acknowledged as debt rose 38% to ₹45.00 Cr, including a ₹20.44 Cr tax dispute. * **Non-Recurring Loss:** A ₹18.68 Cr loss on sale of assets acted as a significant drag on current year margins.

Overall scorecard summary Nesco is a high-quality, cash-generative asset play that has successfully navigated the post-pandemic recovery, particularly in its exhibition segment. The company's financial strength is exemplary, characterized by a debt-free balance sheet and superior earnings quality where cash flow exceeds profit. However, governance posture is currently stable-to-weakening due to administrative oversights and significant executive-employee pay divergence. While capital allocation remains conservative with a heavy tilt toward treasury hoarding, the business is on an improving operational trajectory as it sweats its high-value Mumbai land bank.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 10/10 — Governance Rating: 4 (Note: Rating adjusted to 4 due to administrative "omission" and pay disparity despite 10/10 matrix score).

Part c: investor verdict

Thesis: Nesco is a premier "land-bank play" transitioning into a service-led ecosystem, offering high-margin annuity income from IT leasing and high-leverage growth from exhibitions. **Overall stance:** ACCUMULATE **Rationale:** Exceptional cash flow generation and massive hidden asset value provide a strong margin of safety despite competitive pressures in the exhibition segment. **Re-evaluate when:** BEC segment revenue growth falls below 10% or if the MCGM property tax dispute results in a liability > □25 Cr. **BULL CASE:** Successful monetization of remaining FSI and expansion of the 'Foods' division to 15% of revenue could re-rate the stock as a hospitality/services play. **BEAR CASE:** Loss of major exhibition organizers to new competitors (Jio World) leads to BEC occupancy falling below 50%. **Key monitorable:** BEC Segment Revenue: □155.83 Cr → Watch threshold: < □140 Cr.