



A Free Exhibition



Bombay Exhibition Centre

Western Express Highway,
10 minutes from Mumbai Airport

Sanjay Bakshi
28 May 2010

Note on Nesco Limited

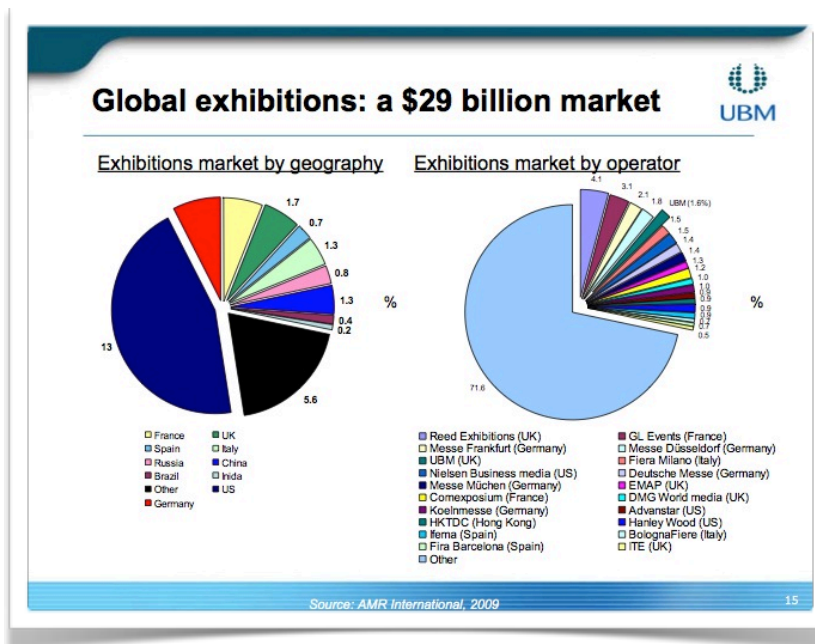
The Exhibitionist

In 1991, just when India's economy was opening up, Mr. Sumant Patel, the CMD of the erstwhile National Engineering Company now renamed as Nesco Limited (NSE@IN), decided to go into the exhibition business. He started the Bombay Exhibition Centre (BEC) – the largest in India in the private sector – and created a business model out of a 70-acre parcel of land near Mumbai's airport.

As India joined the globalization trend, BEC's business took off. Since it was established, BEC has hosted over 500 national and international trade fairs, exhibitions and events. This business is so profitable that it now has annual operating profit margins of more than 75%. Moreover,

these margins are protected from competition thanks to the presence of a wide and expanding moat.

The global trade exhibition business is a multibillion dollar market in which India presently has just a 0.7% stake. China has 13%. See exhibit on the left.



Global exhibition companies like United Business Media (UBM), Reed Exhibitions, and Messe Frankfurt – all Nesco clients – enable face-to-face interaction between global companies and their potential customers in India, which today is one of the fastest growing economies in the world.

You can't be positive on India and its growing importance in world trade and be negative on Bombay Exhibition Centre.

When a Reed, a UBM, or a Messe Frankfurt wants

to organize an exhibition in Mumbai – which is India's business capital – they have to go to BEC. There is no alternative.



Extract from UBM's annual report for 2008:

Events

The global market for trade events is estimated at \$100bn⁷, with trade exhibitions estimated at \$34bn⁷. The market is highly fragmented, with no operator holding more than 3% of the market and UBM holding less than one percent. The industry's continued growth will be underpinned by the growing importance of exhibitions within marketing budgets and by the continued desire for face-to-face interaction between buyers and sellers. Exhibitions and events markets offer worldwide growth opportunities, especially in emerging markets where the event industry is relatively immature. Industry forecasts predict that the global events industry will grow at a compound average growth rate ('CAGR') of 5.5% in the medium term⁷.

In the less mature country markets, growth above GDP is forecast over the medium term in the Middle East, China, India and Brazil, with an average CAGR of approximately 14% forecast, albeit that growth is constrained by the availability of sustainable infrastructure in certain geographies, notably in India.

See exhibit on the left.

While UBM laments the lack of "sustainable infrastructure in India," Nesco is the only player who has the "sustainable infrastructure" in Mumbai that UBM craves for.

Today, BEC is the only place in Mumbai where large scale exhibitions can be held. The next biggest competitor – Nehru Center – has only 25,000 square feet of space, whereas BEC has 450,000 square feet.

While being in Mumbai, India's business capital, enormously helps BEC, the company enjoys two other critical locational advantages over competition.

First, its located in Goregaon, a Mumbai suburb on the Western Express Highway. This is very important because when a large scale exhibition is organized, heavy materials and equipment need to be transported to the exhibition site and being on a national highway gives BEC an advantage.

For example, BEC will host Homeland Security India exhibition in November 2010, where exhibitors will display, among other things, armored carriers, bullet proof vehicles, helicopters, and boats for coast guards. Displaying such heavy equipment requires large flat space (which is scarce in Mumbai) on or very close to a national highway.

Second, BEC is only a ten-minute drive from Mumbai's airport. This is important because visitors fly into Mumbai from all over the world to attend trade shows and exhibitions. Proximity to the airport saves precious time for them – downtown Mumbai is notorious for its traffic jams.

The locational advantages enjoyed by BEC can be understood by taking the example of UBM which organizes international exhibitions and is BEC's largest client.



UBM Tradeshow & Conference Calendar RSS Feed

Sort: Event Date – Earliest First

Your filter parameters has returned 14 events.

Gem & Jewellery India International Exhibition January 23 - 25, 2010 Chennai Trade Centre	India Travel Trade Expo February 18 - 20, 2010 Bombay Exhibition Centre	Footwear Materials, Manufacturing & Technology Exhibition (fMM&T) May 7 - 9, 2010 India Expo Centre
Hyderabad Jewellery , Pearl & Gem Fair 2010 June 18 - 20, 2010 HICC, NOVATEL	India Energy October 7 - 9, 2010 Bombay Exhibition Centre	India Nuclear Energy October 7 - 9, 2010 Bombay Exhibition Centre
Food Ingredients India October 22 - 23, 2010 Bombay Exhibition Centre	IFSEC India 2010 November 23 - 25, 2010 Bombay Exhibition Centre	Firex India 2010 November 23 - 25, 2010 Bombay Exhibition Centre
Homeland Security India November 23 - 25, 2010 Bombay Exhibition Centre	CPHI India December 1 - 3, 2010 Bombay Exhibition Centre	P-MEC India December 1 - 3, 2010 Bombay Exhibition Centre
ICSE India December 1 - 3, 2010 Bombay Exhibition Centre	BioPh India (Pavilion) December 1 - 3, 2010 Bombay exhibition Centre	

The exhibit on the left, taken from UBM's site, shows that of the 14 exhibitions booked by the company in India for 2010, eleven are to be held at Bombay Exhibition Centre.

The availability of space at a strategic location and increased utilization of that space for exhibitions over the last few years have enabled BEC to earn average monthly rentals from halls rivaling those

earned by high-quality commercial buildings. See Table below.

Year	BEC Revenues (Rs Mil.)	Space (Sq. Ft.)	Monthly Rate (Rs/Sq. Ft./Month)
FY09	349.6	4,50,000	65
FY08	496.3	4,50,000	92
FY07	329.1	4,50,000	61
FY06	144.1	4,50,000	27
FY05	109.7	4,50,000	20
FY04	54.4	4,50,000	10

The average monthly rate for FY 09 declined as compared to FY08 because many trade shows and exhibitions were cancelled after November 2008 terrorist attacks in Mumbai.

This problem of cancellation of trade shows due to external forces has been faced by other companies in the past and it makes sense to see what happened in those situations. See exhibit on the right.

Extract from UBM's 2007 Annual Report

Our exhibitions businesses may be adversely affected by incidents which curtail travel, such as major terrorist attacks or outbreaks of disease, such as Avian flu or Severe Acute Respiratory Syndrome ('SARS').

UBM's exhibitions businesses contributed 30% of UBM's revenue in 2007, and over 90% of CMP Asia's revenue (on a pro forma basis). Visitors travel to these shows from around the world.

Any incident that curtails travel will have an impact on the running of an event that year. But our experience from the 2003 SARS outbreak in Asia (and earlier, following reaction to the terrorist attacks in the USA in 2001) showed that whilst revenues were affected in the year of the outbreak or event, they rebounded strongly as demand recovered or even increased to compensate for the previous year.

We agree with UBM's view that while external events may hamper growth for a while, if a trade show offers value to participants, they tend to come back next time. One can expect steady albeit lumpy growth in this business.

For this reason, we will use FY08 revenues of BEC as the base from which we will estimate future revenues of the exhibition business.

BEC's strategic location and scarcity of flat space in Mumbai has resulted in Nesco enjoying pricing power in its exhibition business. Take a look at the exhibit on the right.

Extract from BEC's Contract for Exhibitions

The tariffs for booking of exhibitions at BEC are:

Hall I, V & VI:

Exhibition Day	Rs. 125/- per square meter per day
Non-Exhibition Day (preparation & dismantling day)	Rs. 100/- per square meter per day
Air-conditioning rentals	Rs. 75/- per square meter per day



Hall II:

Tariff inclusive of air-conditioning rentals	Rs. 75/- per square meter per day
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A Reed Exhibitions or a UBM books a hall from BEC at Rs 200 per square meter per day. A typical exhibition lasts for three days and if one counts two non-exhibition days on which halls are booked without air conditioning at the lower rate, the cost per day comes to Rs 160 per square meter per day or a total of Rs 800 per square meter for the five-day period.

Reed and UBM then lease out this space to the exhibitors at more than Rs 15,000 per square meter of actual space leased to exhibitors.

Given that 40% of the space is used up by common areas like corridors, the effective rate charged by exhibition companies from exhibitors comes to Rs 9,000 per square meter.

 <p>CPHl india where intelligence gathers</p> <p>icse bringing outsourcing to CPHl india</p> <p>BioPh bio-solutions for pharma</p>	<p>1 - 3 December 2010</p> <p>Bombay Exhibition Centre, Mumbai, India</p>	 <p>United Business Media</p>	<p>UBM India Pvt Ltd Sagar Tech Plaza A 615-617 6th Floor Andheri Kurla Road Saki Naka Junction Andheri (E) Mumbai 400 072 India T + 91 22 6612 2600 F + 91 22 6612 2626-27 E-mail: info@ubmindia.com Internet: www.cphi-india.com</p>
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Company name:	Tel:	Fax:
Contact Person: Mr./Dr./Mrs./Ms.:	Mobile:	
E-mail address*:	Website:	
VAT no.:	Invoice address (if different from contact address):	
Address:		
Postal Code:		
Town:		
Country:	<small>* UBM may from time to time send relevant updates about CPHl and other relevant UBM products and services. Your e-mail will not be passed to 3rd parties. By providing your e-mail address you consent to being contacted by e-mail for direct marketing purposes by UBM and its appointed contractors.</small>	

I) Space & Shell Scheme (please tick the appropriate box).

We herewith order stand space at ☐ CPHl India 2010 ☐ ICSE India 2010. ☐ BioPh India 2010. Size in square metres: m²

Onsite Rebooking:		Standard Price:	
<input type="checkbox"/> Space only	: € 204 per m ² (min. 24 m ²)	<input type="checkbox"/> Space only	: € 210 per m ² (min. 24 m ²)
<input type="checkbox"/> Space & Shell Scheme	: € 223 per m ² (min. 12 m ²)	<input type="checkbox"/> Space & Shell Scheme	: € 230 per m ² (min. 12 m ²)

Onsite rebooking prices are for existing customers only. To qualify for these prices the exhibitor must book onsite at least the same space as was contracted for CPHl India 2009. This loyalty offer closes on 3 December 2009. If at any time the space booking for 2010 is reduced below the 2009 contracted space the price per m² will revert to the standard prices for CPHl India 2010 which are approximately 3% higher than the loyalty prices. Full details of the standard prices can be found at www.cphi-india.com.

To use CPHl India as an example (see exhibit above), at 223 euros per square meter for 12 square meters, the basic cost of a stall for an exhibitor for this three-day event comes to approximately Rs 175,000. That's a small price to pay by an exhibitor in comparison to the perceived benefits of the exhibition. We know this because exhibitors keep on coming back every year to participate in the exhibition.

The above analysis shows that of the total cost to an exhibitor, BEC gets a small share. If BEC is leasing land to UBM at Rs 800 per square meters and UBM is leasing it to exhibitors at Rs 9,000 per square meter, BEC's share is less than 10% of the total. Nevertheless, BEC's "low" share in the pie still allows it to earn very high returns in this business.

BEC revenues contributing to a small cost to the ultimate exhibitor means that Nesco can gradually increase prices which UBM can pass on to the exhibitors without much resistance. Even if UBM does not pass on the price hikes by BEC, it has no real alternative but to pay up. BEC's exhibition business enjoys pricing power.

This pricing power is also evident from the fact that BEC can charge premium prices for providing additional

Additional Services:

Sr. #	Services	Charges per day
1.	Wi-Fi Facility	Rs. 25,000/- per hall (except in Hall II)
2.	Electrical Male Plugs (for Power Tap-off) - 2 Single Phase Plugs - 3 Three Phase Plugs	Rs. 100/- Rs. 200/-
3.	Housekeeping including during stand build-up and dismantling days, trash collection from stalls, carpet cleaning etc. - 4 Inside halls - 5 Open area	Rs. 10/- per sqm Rs. 15/- per sqm

services. For example, the company charges Rs 25,000 (\$543) per hall per day for providing Wi-Fi access which reminds us of why popcorn costs so much more at the movies as compared to prices elsewhere: Captive clients.

Payment schedule shall be as follows:

- i) License Fee for Halls
 - 15% of total licence fee on allotment
 - 20% of total licence fee, 12 months before the event
 - 25% six months before the event
 - 30% three months before the event
 - Remaining 10%, one month before the event
- ii) Licence Fee for Facilities & Services. Payments to be made along-with the final installment.

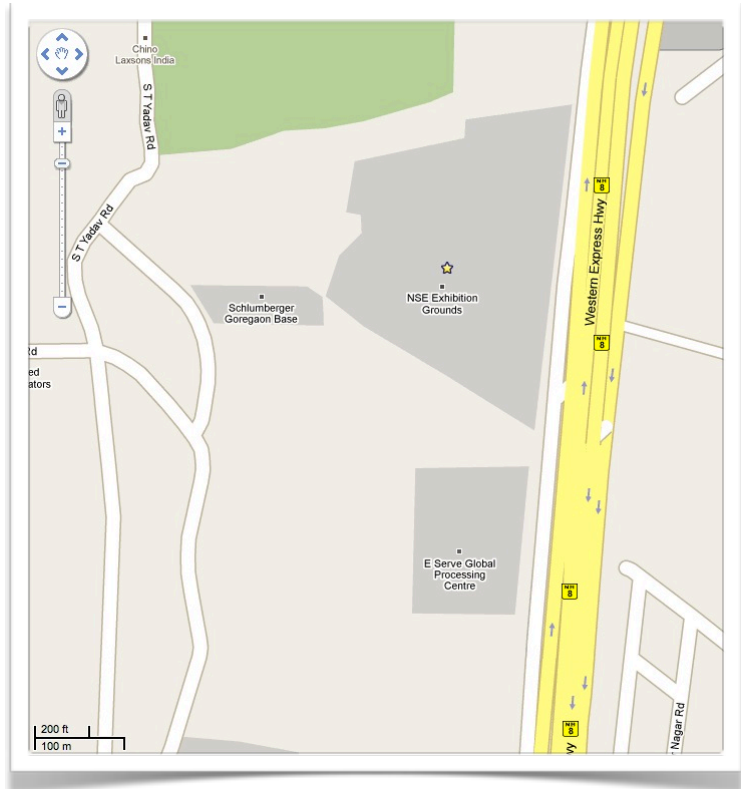
As the exhibit on the left shows, by the time it has hosted a trade show or an exhibition, 100% of the rentals have

been received by BEC indicating its strong bargaining position.

The Realty Check

Apart from BEC, Nesco also has a real-estate business consisting of commercial buildings on the same site where the exhibition grounds are located. See exhibit on the right.

At present the company has two towers leased out to companies like Schlumberger, Tata Consultancy Services (E-Serve), Sodexo, and Intelenet (Sparsh).



TCS@Nesco



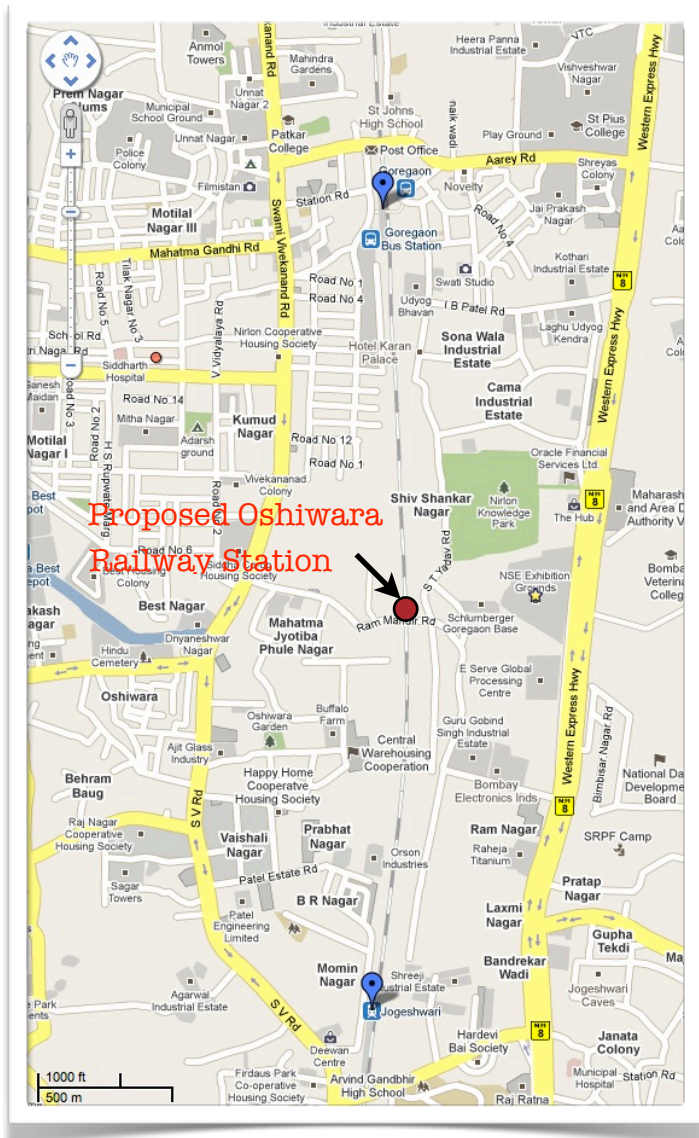
These two buildings have a total space of 300,000 square feet which is leased out and is now fetching average rent of Rs 80 per square foot per month.

At present, the Nesco complex is located between two quite distant

railway stations — the Jogeshwari station in the South and Goregaon station in the North.

A new station is likely to open soon between these two station. Called the “Oshiwara Railway Station,” (see exhibit below) this station is proposed to be located right behind the Nesco complex. When this station opens, Nesco would come within walking distance for employees working in the IT Towers. Walking distance from a train station is Mumbai property's USP.

The table below shows the revenues over the last few years from this business. Full year’s revenues at Rs 80 per square feet per month would be approximately Rs 280 mil.



Revenue from Realty Division including IT Park		
Year		Rs. Mil.
FY09		221.8
FY08		166.7
FY07		94.1
FY06		94.8
FY05		60.0
FY04		25.3

Revenues from IT Park have grown steadily and are set to rise sharply over the next few years as the company constructs and leases out more buildings in the Nesco complex. This is discussed later in this document.

The Fabulous Economics of BEC and Realty Business

The table below describes the fantastic economics of the exhibition and the realty business of Nesco from the data obtained from the annual reports of the company.

	FY09	FY08	FY07	FY06	FY05	FY04
BEC Revenues	349.6	496.3	329.1	144.1	109.7	54.4
IT Park & Realty	221.7	166.7	94.1	94.7	60.0	25.3
Total	571.3	663	423.2	238.8	169.7	79.7
Operating Profit of BEC & Realty Division	429.6	505.1	228.6	169.2	115.8	43.9
Profit Margin	75%	76%	54%	71%	68%	55%

* All figures in Rs Mil. except percentages

The key reason for margins exceeding 75% is that for Nesco the 70-acre parcel of land over which BEC and the commercial buildings stand is essentially free in the sense that it was bought several decades ago at a very low price. Accordingly, no lease rents or interest expense is charged to the income statement for the use of this land. Nesco does not have to bear any capital costs for the use of land out of which it operates BEC and the realty business. Therein lies a major source of entry barrier for the company's exhibition business as well as the realty business.

To compete with Nesco in the exhibition business, one would need: (1) large flat space which is scarce in mumbai; (2) proximity to a national highway; (3) proximity to airport; and (4) zero (or very little) land cost. Meeting all four conditions will be very tough for potential competitors.

The last condition is important because for a new entrant, the moment one considers capital cost of the land — whether bought out with own or borrowed funds, or leased, the business becomes far less profitable.

Consider this: suppose one found such a parcel of land having 450,000 square feet, and suppose one then leased it at only Rs 50 per square foot for month, one would have to shell out Rs 270 mil every year as rent to earn revenues of Rs 500 mil every year, which would devastate the economics of this business.

The absence of this Rs 270 mil in annual cost which, over time should rise, due to inflation, is a very effective entry barrier and protects Nesco's exhibition as well as commercial buildings franchise from competition. Nesco's 75%+ margins are likely to rise even further thanks to the operating leverage it enjoys where incremental revenues substantially fall to the pretax profits.

Even if a new entrant could meet all four conditions, it would also need spend time in building relationships with exhibition companies like Reed Exhibitions and UBM and get them to overcome high switching costs to grab market share from BEC.

Could this happen? Yes, of course, but in our judgement, the chances of that happening are very low.

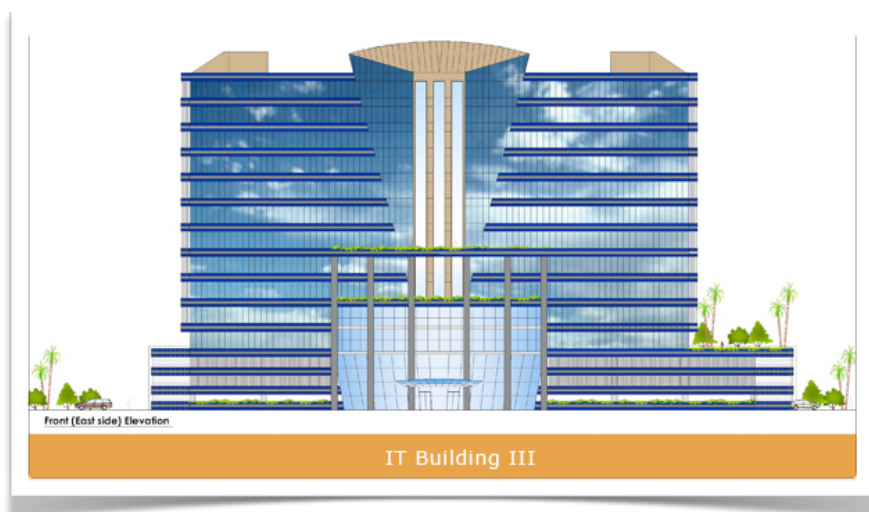
Similar logic applies in the case of the realty business. Land is effectively free for Nesco but not for other developers who unlike the debt-free Nesco, are over-leveraged.

Management recently told us that developers in the Goregaon area have moved away from commercial development and are now focusing on residential development because they get access to deposits from customers. This has allowed Nesco to take up the project of building another IT tower (discussed below).

Growth

A major catalyst for earnings growth for Nesco is the completion and leasing out of its IT Building III.

This building, expected to be completed by May 2010, will cost a total of Rs 1,250 mil and will have 550,000 square feet of leasable space.



Management has informed us that IT Building III project is scheduled to be completed on time and it expects to lease the entire space by May 2010 at an average rent of Rs 150 per square foot per month. According to the management, existing clients (such as TCS, Sodexo and Intelenet) are expected to take up more space in the new tower.

The project is being carried out by Larsen & Toubro – a reputable infrastructure company – and is being funded totally out of the Nesco's own resources. The space will be customized by each tenant to suit its needs after taking possession, and Nesco does not have to spend money on interior fit-outs. Maintenance capex is likely to be very low in this building just like in the other two buildings that exist at present.

Assume that IT Building III will be completed by June 2010 and that Nesco is able to lease it fully by March 2012, almost two years later than management's projection. Further assume that the average rental for this building would be Rs 80 per square foot per month and not Rs 150 per square foot per month, as projected. Under those conditions, a

full year's revenues from this building alone will be Rs 528 mil. Most of this revenue will fall to Nesco's pretax profits because there is no debt to be raised for funding this project and because of high operating leverage. Clearly, this is a very high IRR project for the company.

The key reason for the high IRR for the IT buildings is not just the absence of land cost. Another reason is a FSI of 5 allowed for IT buildings.

"FSI" stands for "Floor Space Index" and is defined by the quotient of the ratio of the combined gross floor area of all floors excepting areas specifically exempted under regulations to the total area of the plot. In other words, FSI measures how high can you take a building. For exhibition space, the allowed FSI is only 1. However, the company has applied to the state government to get a FSI of 2 for the exhibition space and is hopeful of getting the approval soon.

If Nesco got this approval, it's potential for volume growth in the exhibition business will rise (although rates charged would be much lower for renting the upper floor). Even without the increase in FSI, management informs us, the current utilization of land is only about 25% of the maximum the company is allowed to develop under current FSI rules.

Nesco's management informed us that at the request of its exhibition clients, the company is planning to increase its exhibition space from 450,000 square feet to 1 million square feet. This is another very high IRR project for the company because land is effectively free and incremental investment for creating additional space for exhibitions is small.

To summarize, high-quality growth in Nesco's revenues and earnings over the next few years will come from: (1) leasing out of IT Building III; (2) expansion of exhibition space from 450,000 square feet to 1 million square feet; (3) inflation in rents of commercial buildings; (4) increase

in rates charged for hosting exhibitions; (5) increased utilization rate for exhibition business; (6) further expansion into commercial buildings funded from healthy cash flows of both businesses; and (7) increase in FSI from 1 to 2 for the exhibition business.

The Balance Sheet

Nesco has a very strong balance sheet. As on 31 March 2009, total debt was only Rs 170 mil while the company had Rs 1,100 mil parked in mutual funds. It also had Rs 130 mil in cash.

Most of this liquidity is provided by licensees (for commercial buildings) and exhibition companies which pay it in advance for booking exhibitions to be held. See exhibit below.

This money provided by clients as advances and interest free deposits

Schedule 7	As at 31-03-2009	
	Rupees	Rupees
CURRENT LIABILITIES & PROVISIONS:		
A) Current Liabilities		
Sundry creditors		
(Subject to reconciliation & confirmations)		
(Refer note no. 5 in schedule 13)		74,846,919
Other liabilities (include Rs. 14,877,139/- due to directors)		35,351,920
Advance against orders		17,512,025
Advance compensation from licencees		3,615,348
Advance from IT Park licencees		13,125,996
Advance from Convention & Exhibitions organizers		165,042,417
Security deposit from exhibitors		15,252,073
Security deposit from IT Park licencees		10,103,135
Security deposit from licencees		176,388,782
Unclaimed dividend		2,601,353

are a source of cheap finance for funding Nesco's growth.

Management

We like the management for it's foresight and its conservative approach to the business which is demonstrated by its reluctance to use debt.

See exhibit from the latest annual report of the company:

We also like management's reluctance to exploit its monopoly position

There are some signs of improvement in demand. We are of the view that future outlook is positive, as the Indian economy will continue to be one of the fastest growing economies in the world since it is driven largely by domestic demand.

In this context, we are considering to increase our Convention & Exhibition Centre hall space from 4,50,000 sq ft to 1,00,000 sq ft.; construct additional IT buildings after IT building no.3 is completed and fully occupied; and, modernize our Industrial Capital Goods Group. Further expansions we are considering will be timed with the economic tempo in the country. Our Company has no plans to go for new borrowings and would like to keep debt within healthy limits, and as far as possible carry out major portion of this expansion and modernization from our own resources.

in the exhibition business by frequently increasing prices. Clearly, management is focused on actions that enhance the long-term prospects of the business instead of short-term earnings.

We like management's decision to grow the business without taking significant debt and without any need for equity dilution. Given the high cash generation, the gradual build-harvest-build approach makes sense to us.

Krishna Patel, Mr Sumant Patel's son is fully involved in the business and told us about his plans to go into the catering business to provide value-added services to both exhibition related clients as well as licensees for its commercial buildings. That's another high IRR project and is a natural extension of the business the company is in.

Management salary is reasonable. For FY09 total compensation to the Chairman and board of directors was 4% of pretax reported earnings.

Promoters control 62% of the company and do not trade in the company's stock.

Dividend policy is rational. Given the high returns on capital and prospects for growth offering very high incremental returns on capital, dividends are low. For FY09 dividend was Rs 1.20 per share as compared to reported EPS of 47.

Valuation of BEC and Realty Business

We make the following assumptions:

1. IT building III would be completely leased by March 2012 at Rs 100 per square foot per month instead of management's projection of Rs 150 per square feet.
2. We now consider growth arising out of (1) expansion of exhibition space from 450,000 square feet to 1 million square feet; (2) inflation in rents of commercial buildings; (3) increase in rates charged for hosting exhibitions; (4) increased utilization rate for exhibition business; (5) further expansion into commercial buildings funded from healthy cash flows of both businesses; and (6) increase in FSI from 1 to 2 for the exhibition business. We assume that all of these factors would result in a growth in Nesco's earnings at 4% p.a.
3. We ignore surplus cash and financial flexibility arising out of a debt-free balance sheet with substantial liquid assets.
4. We ignore the presence of another operating business which in FY09 had revenues of Rs 280 mil and operating profit of Rs 30 mil.

Considering these assumptions, we arrive at estimated revenues of the company from the two businesses for FY13. These come to Rs 700 mil from BEC, Rs 280 mil from current commercial buildings and Rs 528 mil from IT Building III which total to Rs 1,508 mil in rental income for FY13.

We then apply the 75% margin these two businesses have been enjoying disregarding the impact of further rise which should occur due to high operating leverage. Our estimate of pretax free cash flow for FY13 comes to Rs 1,131 mil.

We then value this very high quality, growing income stream with the assumption of a perpetual growth rate of 4% p.a. Since pretax AAA bond yields in India are presently at 9%, we use 5% (9% yield less 4% perpetual growth rate) to value this income stream. This value as on 31 March 2012 comes to Rs 22,620 mil.

Since Nesco has 7,045,996 shares outstanding, our per share estimate of value comes to Rs 3,210 per share as on 31 March 2012.

We then bring back our estimate of value as on 31 March 2012 to the present, using a discount rate of 12% p.a. This comes to Rs 2,486 per share.

The stock price at present is Rs 1,100 per share. The highest price the stock has seen was Rs 2,800 in Nov 2007. See chart below:




We now apply a two sanity checks on our valuation. First, since the company has 70 acres of land, we can value this land independent of the two businesses which reside on it. From our enquiries from real estate brokers, this land is worth at least Rs 400 mil per acre, which translates into a 28,000 mil for the land or Rs 3,973 per share. That is 60% more than our earning power valuation which represents a significant margin of safety because even if the two businesses were destroyed completely due to an earthquake, the land value would still be there.

Second, we compare our valuation of Rs 2,486 per share with the market value of the IT buildings alone. We know that when IT Building

III is completed by May 2010, the company would have total leasable space of 850,000 square feet. We have also learnt from our inquiries from real-estate brokers that Class A buildings in Goregaon area of Mumbai where Nesco complex is situated has a current market value of approximately Rs 12,000 per square feet. We also know that Goregaon is more expensive than Powai but less expensive than Andheri – both Mumbai suburbs.

The following table from a recent report issued by the reputed real estate consultancy, Cushman & Wakefield, shows that estimated capital value of suburban Powai is Rs 10,000 per square foot, while that of suburban Andheri is Rs 13,500 per square feet.



CUSHMAN & WAKEFIELD.

Global Real Estate Solutions

INDIA OFFICE VALUES

January 2010

MUMBAI

Prime & Grade 'A' Office Capital Values						
DISTRICT	Average Capital Values			% Change From		
	US\$ /SqFt	Euro /SqMts	INR /SqFt	3 months ago	6 months ago	Outlook
South (CBD-Nariman Point)	643	4,661	30,000	0%	0%	➔
Central Worli	536	3,884	25,000	0%	0%	➔
Central (Lower Parel)	407	2,952	19,000	0%	0%	➔
Suburban (Bandra Kurla)	536	3,884	25,000	0%	0%	➔
Suburban (Andheri)	290	2,097	13,500	0%	0%	➔
Suburban (Powai)	214	1,554	10,000	0%	0%	➔
Suburban (Malad)	214	1,554	10,000	0%	0%	➔
Vashi	134	971	6,250	0%	0%	➔
Thane Belapur Road	75	544	3,500	0%	-44%	➔

Applying the average rate of Rs 12,000 per square foot to a leasable space of 850,000 square feet, we find that Nesco's three buildings alone are worth 1,020 cr which translates to Rs 1,447 per share. Given that the current stock price of the company is Rs 1,100 per share, we find

that the value of the three IT buildings alone exceeds the market value of Nesco. We are getting the exhibition business for free.

Risks

Our assessment is subject to two key risks including: (1) completion and leasing out of IT Building III; (2) dependence on a single location for most of the earning power. We are in touch with the management regarding (1) and recommend dealing with (2) by using diversification within our own portfolios as our source of protection.