

INDUSTRY	POWER
CMP (As on 19 May 2017)	Rs 878
Target Price	Rs 1,069
Nifty	9,428
Sensex	30,465

KEY STOCK DATA

Bloomberg	CESC IN
No. of Shares (mn)	133
MCap (Rs bn) / (\$ mn)	116/1,799
6m avg traded value (Rs mn)	586

STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,002/531
	3M 6M 12M
Absolute (%)	2.1 47.5 59.0
Relative (%)	(4.9) 31.0 39.1

SHAREHOLDING PATTERN (%)

Promoters	49.93
FIs & Local MFs	20.18
FPIs	21.76
Public & Others	8.13

Source : BSE

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Appropriate restructuring, stable quarter

CESC reported a steady 4QFY17 with flat YoY PAT (Rs 2.95bn), despite the impact of a negative bid on its captive mine. The results were overshadowed by the much-awaited announcement of CESC's corporate restructuring. The company would now be demerged into four entities, i.e. Discom, Genco, Retail and others. This demerger would bring in the desired benefits of (a) Isolation of power cash flows from other businesses (one of investors key concerns) and (b) Opportunity to invest in a pure-play power distribution biz, with steady cash flows and growth.

The demerger also signals management's confidence in the recovery in Spencer's performance, as it will now stand on its own, without funding support from the parent. It is important to note that CESC has several assets (Renewable, Quest Mall and others), which were not valued fairly in the listed conglomerate. This is now expected to be rectified, as these assets are now housed under separate companies, making the overall sum of the parts higher than the current

Financial Summary: Standalone

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY15	FY16P	FY17P	FY18E	FY19E
Net Sales	19,130	15,220	26	17,160	11	61,888	66,080	74,100	76,504	80,136
EBITDA	5,450	5,230	4	4,110	33	15,489	17,440	18,110	17,842	18,594
APAT	2,950	2,930	1	1,520	94	6,977	8,450	8,630	9,009	9,503
Diluted EPS (Rs)	22.2	22.0	1	11.4	94	52.4	63.5	64.9	67.7	71.4
P/E (x)						16.8	13.8	13.5	13.0	12.3
EV/EBITDA (x)						11.4	8.5	8.5	8.4	7.8
RoE						9.2	8.0	6.6	6.6	6.6

Source: Company, HDFC sec Inst Research

price. Thus, we see value in the stock, and upgrade it to BUY with an SOTP-based TP of Rs 1,069/share.

Other key highlights

- With the commencement of supply of 187MW to NPCL, one unit in the Chandrapur plant is operating at over 90% PLF so far in 1QFY18. Importantly, mgmt also stated that the supply of 150MW (short-term PPA) to MSEDCL also commenced in May-17. As per the mgmt, it is likely that supplies to MSEDCL would continue over the medium term.
- The Chandrapur plant has signed a MOU for 200MW with NPCL (supplies likely in FY19E). Until then, a fully-operational unit, coupled with MSEDCL's short-term PPA, would be enough to arrest losses. The performance at Haldia continues to be strong, with ~77% PLF and PAT of Rs 2.96bn (+27% YoY) in FY17.
- Spencer witnessed an improvement in FY17, with avg sales/ store level EBITDA growing 8.5/19% resp.
- Near term view:** Steady earnings, coupled with value unlocking benefits should drive the stock upwards.

APAT was flat YoY at Rs 2.95bn in 4QFY17, despite the impact of a negative bid on CESC's captive mine

Rise in power and fuel costs led to EBITDA margins declining ~590bps YoY to 28.5% in 4QFY17

Quarterly Financials Snapshot: Standalone

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Sales	19,130	15,220	26	17,160	11
Cost of power purchased	5,750	4,170		6,600	
Cost of fuel	2,940	1,520		2,550	
Employee Expense	1,940	1,620		1,930	
Other Operating Expenses	3,050	2,680		1,970	
EBITDA	5,450	5,230	4	4,110	33
Interest Cost	1,090	1,090		1,080	
Depreciation	1,160	1,000		980	
Other Income (incl E/o items)	590	310		300	0
PBT	3,790	3,450	10	2,350	61
Tax	840	520		830	
Reported PAT	2,950	2,930	1	1,520	94
E/o (adj for tax)	0	0		0	
APAT	2,950	2,930	1	1,520	94

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

(Rs mn)	3QFY17	3QFY16	YoY (bps)	2QFY17	QoQ (bps)
Power Cost as % of Net Sales	30.1	27.4	266	38.5	-840
Fuel Cost as % of Net Sales	15.4	10.0	538	14.9	51
Employee Expenses as % of Net Sales	10.1	10.6	-50	11.2	-111
Other operating expenses as % of Net Sales	15.9	17.6	-166	11.5	446
EBITDA Margin (%)	28.5	34.4	-587	24.0	454
Net Profit Margin (%)	22.2	15.1	709	35.3	-1316
Tax Rate (%)	15.4	19.3	-383	8.9	656

Source: Company, HDFC sec Inst Research

With a pick-up in generation from Budge Budge, overall PLF improved QoQ to 51.7% in 4QFY17

On an annual basis, T&D losses declined from 11.55% in FY16 to 11.09% in FY17

Operational Parameters Snapshot

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Total generation (MUs)	2,074	1,976	1,598	1,340	1,911	1,717	1,170	1,257
-Budge Budge	1,602	1,502	1,387	1,302	1,570	1,553	1,073	1,215
-Southern	295	257	112	0	168	41	24	0
-Titagarh	177	217	99	38	173	123	73	41
PLF	84.4	79.5	64.3	53.9	76.9	69.1	47.1	51.7
-Budge Budge	97.8	90.7	83.8	78.6	94.8	93.8	64.8	75.0
-Southern	56.3	48.5	21.1	0.0	31.7	7.7	4.5	0.0
-Titagarh	60.0	72.8	33.2	12.7	58.0	41.2	24.5	14.1
Total Sales (MUs)	2,562	2,566	2,239	2,039	2,782	2,654	2,090	1,994
Power purchase (MUs)	1,016	1,125	1,047	1,043	1,409	1,398	1,290	1,049

Source: Company, HDFC sec Inst Research

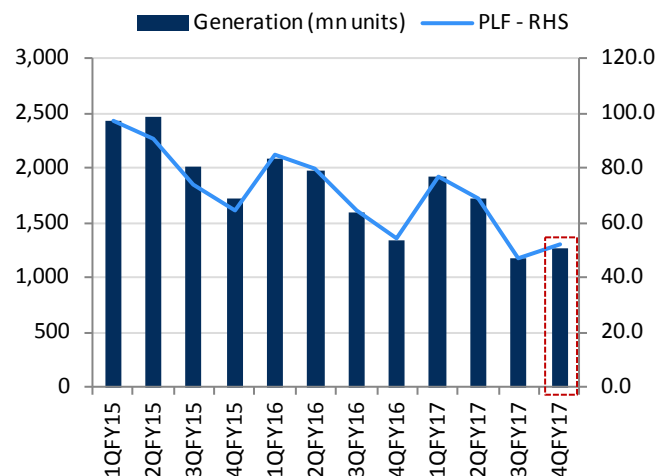
FSL Financials: Snapshot

(Rs mn)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Sales	7,469	7,925	8,178	8,525	8,935	8,844	8,854	8,923
Personnel Expenses	4,997	5,342	5,579	5,804	5,817	5,950	5,901	6,167
Operating Expenses	1,576	1,599	1,594	1,776	1,926	1,768	1,882	1,766
EBITDA	897	984	1,005	945	1,192	1,126	1,072	990
Depreciation	172	183	160	147	163	160	156	110
Interest	142	130	124	130	132	103	99	114
Other Income	45	9	21	19	19	-2	14	-5
Profit before tax	628	681	742	688	916	861	831	761
Tax	63	61	70	95	183	148	134	112
Minority Interest	2	1	2	0	0	1	-2	-5
Net profit	564	619	671	592	734	713	700	654

Source: Company, HDFC sec Inst Research

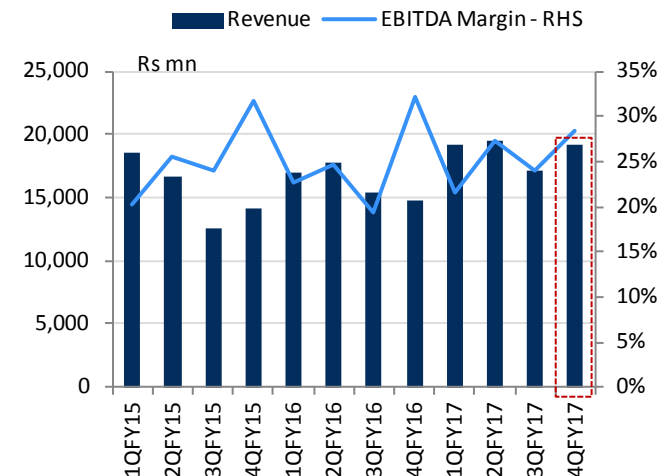
With the commencement of supply in May-17 to MSEDCL against short-term PPA for 150 MW, units generated are expected to pick up

Units Generation And PLF



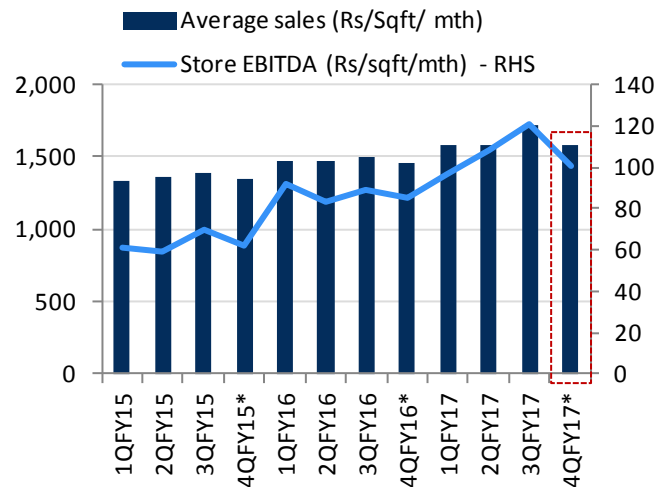
Source: Company, HDFC sec Inst Research

Revenue And EBITDA Margin Trajectory



Source: Company, HDFC sec Inst Research

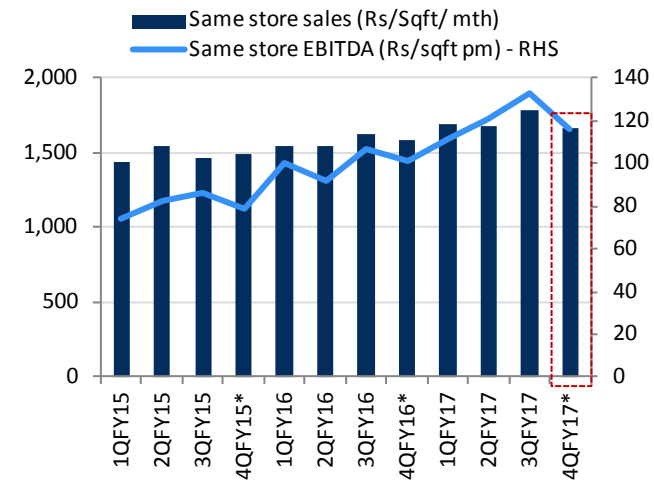
Spencers: Average Store Sales & EBITDA



* Represents annual numbers

Source: Company, HDFC sec Inst Research

Spencers: Same Store Sales & EBITDA



* Represents annual numbers

Source: Company, HDFC sec Inst Research

Spencer witnessed improvement in FY17, with average sales / store level EBITDA growing 8.5/19% respectively

Improvement in Spencers' performance could provide further upsides to our current TP of Rs 1,069

Key Changes In Estimates

	Previous Estimates		Revised Estimates		Change (% / bps)	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
PAT (Rs mn)	7,544	7,927	8,457	8,880	12.1%	12.0%
Core RoE (%)	16.8%	16.8%	19.3%	19.3%	247 bps	245 bps

Source: Company, HDFC sec Inst Research

CESC: SOTP Valuation

Business	Valuation basis	Value	Rs/sh
Distribution (Regulated)	2.0x of regulated equity of Mar-19	81,865	615
Haldia	2.0x of invested equity capital	23,000	173
Chandrapur	0.5x invested equity capital	5,700	43
Surya Vidyut	1x P/B of FY19E	1,579	12
Power business Total		112,144	842
Spencers	0.5x FY19E revenue	12,330	93
Mall	1x P/B of FY19E	2,938	22
Firstsource Solutions	CMP and 20% holdco discount	10,845	81
Non Power business Total		26,113	196
C&CE (ex-AAD)		4,213	32
Target Price		142,469	1,069

Source: HDFC sec Inst Research

Peer Valuations

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
NTPC Ltd	1,312	159	BUY	201	12.2	13.5	15.9	13.1	11.8	10.0	11.1	10.4	9.4	10.9	11.3	12.2
PGCIL	1,076	206	BUY	231	14.6	17.2	19.6	14.1	12.0	10.5	9.6	8.5	7.6	16.7	17.3	17.5
CESC Ltd	117	878	BUY	1,069	64.9	67.7	71.4	13.5	13.0	12.3	8.5	8.4	7.8	6.6	6.6	6.6
JSW Energy Ltd	106	65	NEU	59	3.8	4.1	5.1	17.2	15.8	12.6	7.2	7.4	6.9	7.1	7.6	9.1

Source: HDFC sec Inst Research

Income Statement: Standalone

(Rs mn)	FY15	FY16P	FY17P	FY18E	FY19E
Net Revenues	61,888	66,080	74,100	76,504	80,136
Growth (%)	12.3	6.8	12.1	3.2	4.7
Material Expenses	36,659	33,860	39,730	41,586	43,530
Employee Expenses	6,941	7,080	7,800	8,246	8,692
SG&A Expenses	2,800	7,700	8,460	8,830	9,321
Total Expenses	46,400	48,640	55,990	58,662	61,542
EBITDA	15,489	17,440	18,110	17,842	18,594
EBITDA Margin (%)	25.0	26.4	24.4	23.3	23.2
EBITDA Growth (%)	8.1	12.6	3.8	(1.5)	4.2
Depreciation	3,431	3,700	4,090	4,413	4,551
EBIT	12,058	13,740	14,020	13,430	14,043
Other Income (Including EO Items)	848	1,280	1,470	1,544	1,621
Interest	4,079	4,560	4,480	3,424	3,481
PBT	8,827	10,460	11,010	11,549	12,183
Tax (Incl Deferred)	1,850	2,010	2,380	2,541	2,680
RPAT	6,977	8,450	8,630	9,009	9,503
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	6,977	8,450	8,630	9,009	9,503
APAT Growth (%)	7.0	21.1	2.1	4.4	5.5
Adjusted EPS (Rs)	52.4	63.5	64.9	67.7	71.4
EPS Growth (%)	0.9	21.3	2.1	4.4	5.5

Source: Company, HDFC sec Inst Research

Balance Sheet: Standalone

(Rs mn)	FY15	FY16P	FY17P	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	1,332	1,330	1,330	1,330	1,330
Reserves	79,467	128,680	131,910	138,284	145,007
Total Shareholders Funds	80,799	130,010	133,240	139,614	146,337
Long Term Debt	60,420	29,660	37,880	38,761	39,642
Short Term Debt	11,411	14,590	14,350	14,350	14,350
Total Debt	71,831	44,250	52,230	53,111	53,992
Net Deferred Taxes	-	35,060	35,550	35,550	35,550
Long Term Provisions & Others	22,677	15,240	16,780	17,780	18,780
TOTAL SOURCES OF FUNDS	175,307	224,560	237,800	246,055	254,659
APPLICATION OF FUNDS					
Net Block	92,338	149,150	148,690	151,157	153,606
CWIP	2,617	1,960	1,880	2,000	2,000
Investments	49,366	40,500	40,860	40,860	40,860
LT Loans & Advances		11,880	14,270	14,270	14,270
Total Non-current Assets	144,321	203,490	205,700	208,287	210,736
Inventories	4,055	3,170	3,790	4,192	4,391
Debtors	13,817	9,660	9,680	10,480	10,978
Other Current Assets	14,699	19,190	29,060	27,248	27,444
Cash & equivalents	12,287	13,390	14,310	19,951	26,359
Total Current Assets	44,858	45,410	56,840	61,871	69,171
Creditors	10,314	21,920	21,770	20,960	21,955
Other Current Liabilities & Provns	3,558	2,420	2,970	3,144	3,293
Total Current Liabilities	13,873	24,340	24,740	24,104	25,248
Net Current Assets	30,985	21,070	32,100	37,767	43,923
TOTAL APPLICATION OF FUNDS	175,307	224,560	237,800	246,055	254,659

Source: Company, HDFC Sec Inst Research

Cash Flow Statement: Standalone

(Rs mn)	FY15	FY16P	FY17P	FY18E	FY19E
Reported PBT	8,827	10,460	11,010	11,549	12,183
Non-operating & EO items	(848)	(1,280)	(1,470)	(1,544)	(1,621)
Interest Expenses	4,079	4,560	4,480	3,424	3,481
Depreciation	3,431	3,700	4,090	4,413	4,551
Working capital change	(9,206)	(8,299)	(10,960)	974	1,252
Tax Paid	(1,850)	(2,010)	(2,380)	(2,541)	(2,680)
Other operating items	5,451	77,809	(2,386)	-	-
OPERATING CASH FLOW (a)	9,884	84,940	2,384	16,275	17,166
Capex	(8,748)	(60,245)	(3,550)	(7,000)	(7,000)
Free Cash Flow	1,136	24,695	(1,166)	9,275	10,166
Investments	(6,118)	8,866	(360)	-	-
Non-operating Income	848	1,280	1,470	1,544	1,621
INVESTING CASH FLOW (b)	(14,018)	(50,099)	(2,440)	(5,457)	(5,379)
Debt Issuance/(Repaid)	14,045	(27,581)	7,981	881	881
Interest	(4,079)	(4,560)	(4,480)	(3,424)	(3,481)
FCFE	11,103	(7,446)	2,335	6,733	7,566
Share Capital Issuance	76	(2)	-	-	-
Dividend	(1,436)	(1,596)	(2,524)	(2,635)	(2,780)
FINANCING CASH FLOW (c)	8,607	(33,739)	976	(5,178)	(5,379)
NET CASH FLOW (a+b+c)	4,473	1,103	920	5,641	6,407
Closing Cash & Equivalents	12,287	13,390	14,310	19,951	26,359

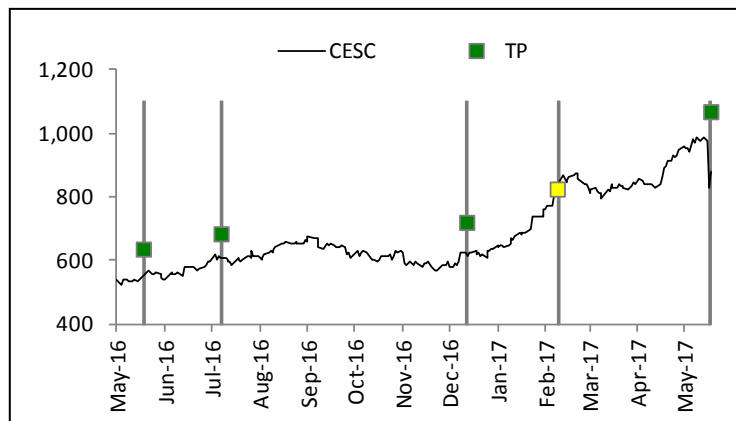
Source: Company, HDFC sec Inst Research

Key Ratios: Standalone

	FY15	FY16P	FY17P	FY18E	FY19E
PROFITABILITY %					
GPM	40.8	48.8	46.4	45.6	45.7
EBITDA margin	25.0	26.4	24.4	23.3	23.2
APAT margin	11.3	12.8	11.6	11.8	11.9
RoE	9.2	8.0	6.6	6.6	6.6
Core RoCE (RoIC)	9.0	7.8	6.2	5.7	5.9
RoCE	6.3	6.1	5.3	4.8	4.9
EFFICIENCY					
Tax Rate (%)	21.0	19.2	21.6	22.0	22.0
Fixed Asset Turnover (x)	0.7	0.4	0.5	0.5	0.5
Inventory (days)	23.9	17.5	18.7	20.0	20.0
Debtors (days)	81.5	53.4	47.7	50.0	50.0
Other Current Assets (days)	86.7	106.0	143.1	130.0	125.0
Payables (days)	60.8	121.1	107.2	100.0	100.0
Other Current Liab & Provns (days)	21.0	13.4	14.6	15.0	15.0
Cash Conversion Cycle (days)	110.3	42.4	87.6	85.0	80.0
Debt/EBITDA (x)	4.6	2.5	2.9	3.0	2.9
Net D/E (x)	0.7	0.2	0.3	0.2	0.2
Interest Coverage (x)	3.0	3.0	3.1	3.9	4.0
PER SHARE DATA (Rs)					
EPS	52.4	63.5	64.9	67.7	71.4
CEPS	78.1	91.4	95.6	100.9	105.7
Dividend	9.0	10.0	16.2	16.9	17.9
Book Value	606.5	977.5	1,001.8	1,049.7	1,100.3
VALUATION					
P/E (x)	16.8	13.8	13.5	13.0	12.3
P/BV (x)	1.4	0.9	0.9	0.8	0.8
EV/EBITDA (x)	11.4	8.5	8.5	8.4	7.8
EV/Revenues (x)	2.9	2.2	2.1	2.0	1.8
OCF/EV (%)	5.6	57.6	1.5	10.9	11.9
FCF/EV (%)	0.6	16.7	(0.8)	6.2	7.0
FCFE/Mkt Cap (%)	9.5	(6.4)	2.0	5.8	6.5
Dividend Yield (%)	1.0	1.1	1.8	1.9	2.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
20-May-16	552	BUY	637
11-Jul-16	610	BUY	685
13-Dec-16	623	BUY	721
11-Feb-17	842	NEU	822
22-May-17	878	BUY	1,069

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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