Stock Update

Subsidiaries performance improves, Maintain Buy

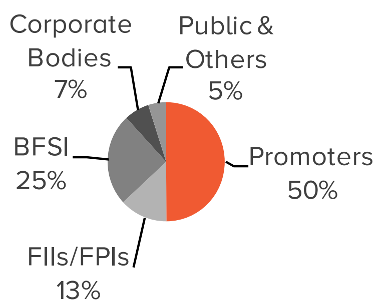
CESC

Reco: Buy | CMP: Rs725

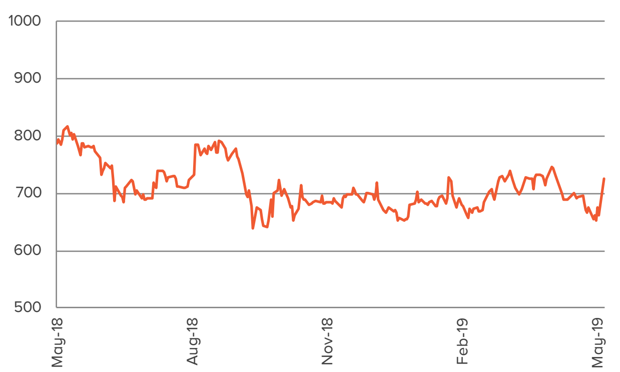
Company details

Price target:	Rs860
Market cap:	Rs9,058 cr
52-week high/low:	Rs824/625
NSE volume: (No of shares)	4.2 lakh
BSE code:	500084
NSE code:	CESC
Sharekhan code:	CESC
Free float: (No of shares)	6.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.9	-2.3	-1.0	-14.1
Relative to Sensex	-7.7	-7.9	-7.7	-21.4

Key points

- **Higher regulatory & other income boost Q4 PAT:** Revenues witnessed a decline of 7.7% y-o-y to Rs 1662 crores, that was led by lower volumes sold (down by 4.5% y-o-y to 2291 million units) and lower realisations (down by 3.7% y-o-y to Rs 7.25/ unit). Gross margins witnessed a contraction of 345 bps to 40.3% in Q4 as a result of input cost pressures. Generation cost of power increased to Rs 2.6 per unit (up by 16.4% y-o-y). The contraction in EBITDA margin came in lower at 258 bps to 9.0% due to cost reduction and cost efficiency in employee and other expenses. These were lower by 24 bps and 62 bps y-o-y to 14.1% and 17.1% of sales respectively during Q4FY2019. PAT registered a growth of 9.2% y-o-y largely led by higher other income and higher regulatory income up by 41.2% and 18.2% y-o-y respectively.
- **T&D loss reduces during FY2019:** Muted demand off-take of power during FY2019, led to lower generation of power both at Budge Budge unit and Southern unit (down by 0.3% and 6.6% y-o-y respectively). Power purchased also remained lower by 1.0% during the year. This led to 0.4% decline in revenues y-o-y, as realisation also did not support and was lower by 0.8% y-o-y. Though PLF was lower at both the units, the overall reported T&D loss reduced by 65 bps to 9.0% during FY2019. The company witnessed input cost pressures largely on the generation side wherein cost of electricity generated increased by 11.7% y-o-y to Rs 2.5/ unit during FY2019. The gross margin witnessed contraction of 286 bps to 41.0% during FY2019. Higher employee cost 11.9% of sales as against 11.0% further impacted EBITDA margins lower by 349 bps to 17.5%. Significant increase in regulatory income (up by 2.7x) resulted in PAT growth 8.4% y-o-y during FY2019.
- **Strong volume growth in Chandrapur, as PLF scales up further:** Chandrapur, Maharashtra (300MW x 2) witnessed strong volume growth of 25.6% y-o-y, as PLF improved by 1590 bps to 61.4% during FY19. This was largely on account of Unit II being fully tied up under long term PPA with NPCL (187 MW) and TANGEDCO (100 MW) along with various short term PPAs signed for Unit I. The PLF remained stable at Haldia, West Bengal with a marginal improvement of 169 bps to 87.8% during FY19 on the back of rising

demand off-take from the company to cater to the needs of customers in the Kolkata region.

- **Subsidiaries performance improves during FY19:** The company witnessed improved performance in its subsidiaries. Revenue witnessed double digit growth across all subsidiaries except for the Haldia power plant which saw a growth of low single digit (1.4% y-o-y) largely due to capacity constraints. The Chandrapur plant reported a strong operating margin expansion of 543 bps to 31.0%, leading to losses at PAT being reduced to half at Rs 93 crores as against Rs 199 crores during FY18. Revenue in the distribution business (Kota / Bharatpur / Bikaner) increased by 14.8% y-o-y also the performance witnessed improvement as losses at EBITDA and PAT reduced by 76% and 50% respectively during FY19.

- **Introduce FY2021 numbers and maintain Buy with revised PT of Rs. 860:** Considering the ongoing peak summer season coupled with the general elections in India, we believe that the power demand across the country is expected to remain robust. Based on the standalone performance reported during FY2019, we have fine tuned our numbers for FY2020 and introduce FY2021E numbers. Subdued power demand off-take coupled with delay in tie-up of the remaining capacity at Chandrapur might have a bearing on the company's performance. However we remain positive on the stock and maintain our Buy rating with revised PT of Rs 860.

Results (Standalone) Rs cr

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	1,662	1,801	(7.7)	1,707	(2.6)
EBITDA	150	209	(28.2)	202	(25.7)
Other Income	72	51	41.2	45	60.0
Depreciation	103	109	(5.5)	109	(5.5)
Finance Cost	109	116	(6.0)	117	(6.8)
PBT	10	35	(71.4)	21	(52.4)
Total Tax	84	76	10.5	48	75.0
Reported PAT	309	283	9.2	173	78.6
EPS (Rs)	23.2	21.3	9.2	13.0	(29.4)
Margin			**(BPS)**		**(BPS)**
EBITDA Margin (%)	9.0	11.6	(258)	11.8	(281)
PAT Margin (%)	18.6	15.7	288	10.1	846

Source: Sharekhan Research

Valuation (Standalone) Rs cr

Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operations	7,220	7,786	7,754	8,353	9,048
Growth (%)	6.2	7.8	(0.4)	7.7	8.3
Operating Profit	1,621	1,635	1,358	1,540	1,719
Operating Profit Margin (%)	22.5	21.0	17.5	18.4	19.0
RPAT	861	864	937	1,058	1,164
REPS (Rs.)	64.6	65.0	70.5	79.6	87.5
P/E (x)	11.2	11.2	10.3	9.1	8.3
Price/ Book (x)	0.7	1.0	1.0	0.9	0.8
RoCE (%)	6.6	7.2	8.3	8.7	8.7
RoE (%)	6.5	7.6	9.8	10.4	10.6

Source: Sharekhan Research

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