

Sector: Power
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 798	
Price Target: Rs. 905	↔

↑ Upgrade ↔ No change ↓ Downgrade

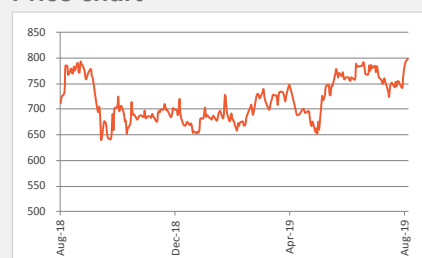
Company details

Market cap:	Rs. 9,974 cr
52-week high/low:	Rs. 817/625
NSE volume: (No of shares)	3.6 lakh
BSE code:	500084
NSE code:	CESC
Sharekhan code:	CESC
Free float: (No of shares)	6.6 cr

Shareholding (%)

Promoters	50
FII	16
DII	24
Others	10

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.3	16.9	16.3	14.3
Relative to Sensex	6.8	16.1	10.4	13.8

Sharekhan Research, Bloomberg

CESC Limited's (CESC) standalone Q1FY2020 profit after tax (PAT) rose strongly by 18% y-o-y to Rs. 217 crore led by higher power sales volume (up 8% y-o-y) and improved realization (up 1.2% y-o-y). The company started reporting consolidated financials from Q1FY2020 and consolidated PAT rose by only 9.4% y-o-y to Rs. 232 crore as strong performance from standalone business was partially offset by lower profit contribution from subsidiaries. We believe that CESC is trading at an attractive valuation of 9.1x FY2021E EPS and 0.9x FY2021 book value on a standalone basis as we expect earnings to improve going forward with turnaround of loss-making subsidiaries. Hence, we maintain our Buy rating on CESC with unchanged price target (PT) of Rs. 905.

Key positives

- ◆ Strong growth in power sales volume.
- ◆ Cost of power purchase declined by 4.2% y-o-y

Key negatives

- ◆ Weak performance of subsidiaries.

Our Call

Valuation - Maintain Buy with unchanged SoTP-based PT of Rs. 905: We have marginally lowered our FY2020 earnings estimates to factor higher other expenses, depreciation and interest costs while maintaining our FY2021 earnings estimates. We expect a gradual re-rating for CESC given: 1) steady earnings contribution from the standalone business and 2) turnaround of Dhariwal Infrastructure and 3) moderation of losses at the Rajasthan distribution franchisee (led by lower T&D losses). Hence, we maintain our Buy rating on CESC with unchanged SoTP-based price target of Rs. 905. At current market price, the stock is trading at an attractive valuation of 9.1x FY2021E EPS and 0.9x FY2021E book value on a standalone basis.

Key Risks

Delay in signing of long term PPA for the Chandrapur plant and sustained losses in the distribution franchisee for an extended period.

Valuation (standalone)

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E	FY21E
Revenues	7,220	7,786	7,754	8,353	9,048
OPM (%)	22.5	21.0	17.5	18.0	19.0
PAT	861	864	937	1,001	1,164
% y-o-y growth	1.9	0.3	8.4	6.8	16.3
EPS (Rs.)	64.6	65.0	70.3	75.1	87.4
P/E (x)	12.4	12.3	11.4	10.6	9.1
Price/ Book (x)	0.8	1.1	1.1	1.0	0.9
EV/EBITDA (x)	8.9	8.8	10.6	9.3	8.0
RoCE (%)	6.6	7.2	8.3	8.5	8.7
RoE (%)	6.5	7.6	9.8	9.9	10.7

Source: Company; Sharekhan estimates

Good standalone performance; subsidiaries post weak quarter

Standalone PAT increased by 18% y-o-y to Rs. 217 crore led by higher power sales volumes of 3,057 million units (up 8% y-o-y) and improved realization to Rs7.7/unit (up 1.2% y-o-y). Generation volumes remained flat y-o-y at 1,718 million units and higher demand was aided by purchases (up 10.3% y-o-y to 1,774 million units). The cost of fuel for power generation increased by 18% y-o-y to Rs. 2.7/unit while power purchase costs declined by 4.2% y-o-y to Rs. 5/unit.

CESC has started reporting consolidated quarterly financials from Q1FY2020. Consolidated PAT rose by 9.4% y-o-y to Rs. 232 crore led by strong performance of the standalone business partially offset by lower profit contribution from subsidiaries. Post-tax profit from Haldia declined by 7% y-o-y to Rs. 76 crore with lower generation at 1,058 million units (down 5% y-o-y) and profit from Crescent Power was lower substantially by 86% y-o-y at Rs. 3 crore. The loss from Dhariwal Infrastructure Ltd stood at Rs. 24 crore (similar to Q1FY2019 level) despite a sharp decline in PLF to 70.8% in Q1FY2020 (versus 80.6% in Q1FY2019). The Rajasthan distribution franchisee reported a marginally lower loss of Rs. 53 crore (versus loss of Rs. 56 crore in Q1FY2019).

Results					Rs cr
Particulars	Q1FY20	Q1FY19	YoY(%)	Q4FY19	QoQ(%)
Revenue	2,359	2,165	9.0	1,662	41.9
EBITDA	442	495	(10.7)	150	194.7
Other Income	23	20	15.0	72	(68.1)
Depreciation	109	110	(0.9)	103	5.8
Finance Cost	130	120	8.3	109	19.3
PBT	226	285	(20.7)	10	2,160.0
Total Tax	61	89	(31.5)	84	(27.4)
Reported PAT	217	184	17.9	309	(29.8)
EPS	16.3	13.8	17.9	23.2	(22.8)
Margins			bps		Bps
EBITDA Margin (%)	18.7	22.9	(413)	9.0	971
PAT Margin (%)	9.2	8.5	70	18.6	(939)

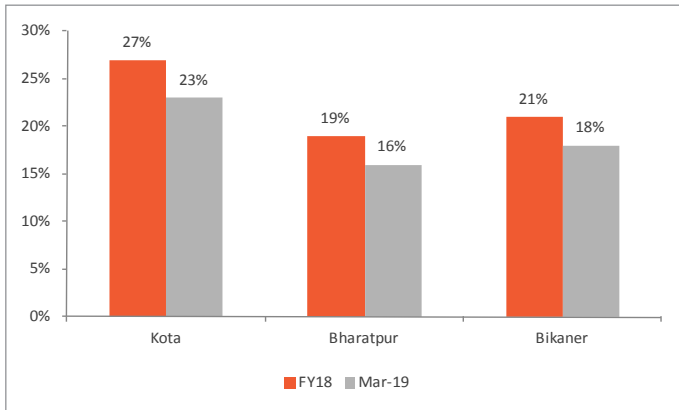
Source: Company

CESC – key financial performance					Rs cr
Particulars	Revenues			PAT	
	Q1FY20	Q1FY19	Q1FY20	Q1FY19	
CESC Consolidated	3257	3007	231	215	
Haldia Energy Ltd	575	580	76	82	
Dhariwal Infrastructure Ltd	366	331	-24	-24	
Crescent Power	77	86	3	21	
Noida Power	456	410	27	33	
Kota/Bharatpur/Bikaner	434	408	-53	-56	

Source: Company

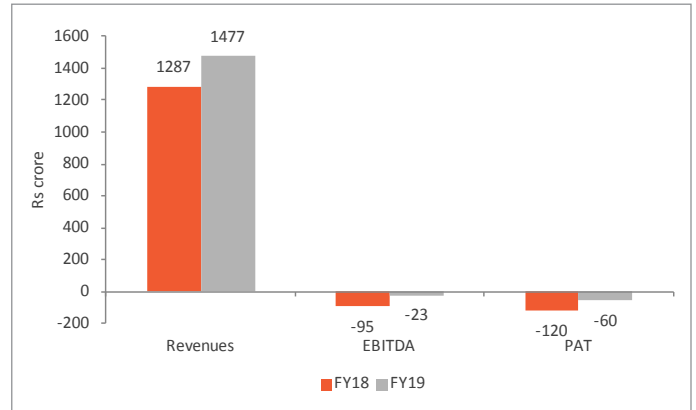
Financials in charts

Reducing T&D loss in Rajasthan distribution franchisee



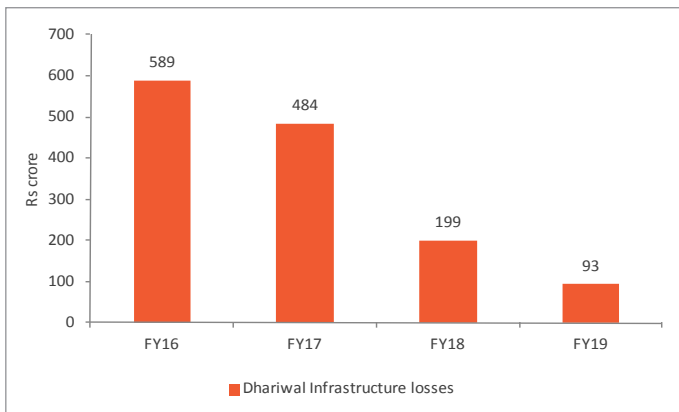
Source: Company, Sharekhan Research

Reducing loss in Rajasthan distribution franchisee



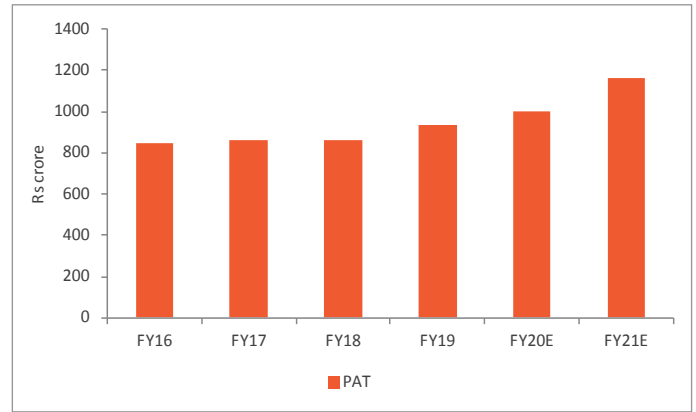
Source: Company, Sharekhan Research

Turnaround at Dhariwal Infrastructure



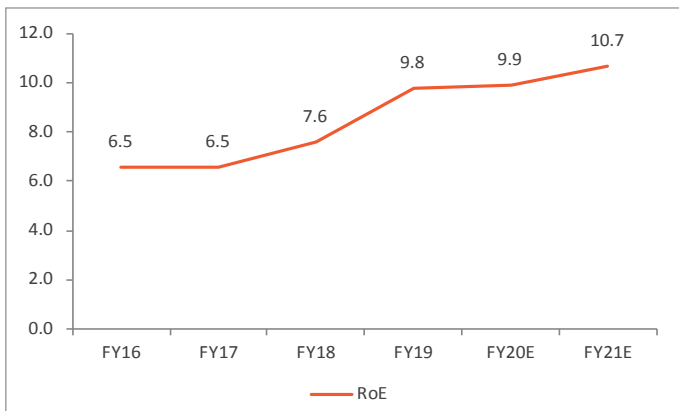
Source: Company, Sharekhan Research

Steady PAT contribution from standalone business



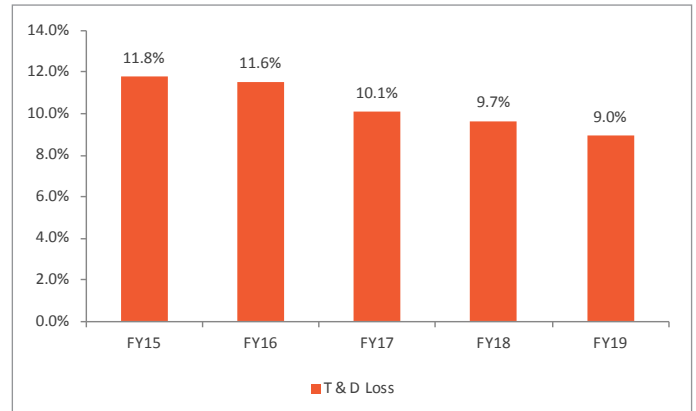
Source: Company, Sharekhan Research

Consistently improving RoEs



Source: Company, Sharekhan Research

Strong track record to reduce T&D losses



Source: Company, Sharekhan Research

Outlook – improving earnings outlook with reduced losses at subsidiaries

The earnings outlook for CESC is improving with turnaround of Dhariwal Infrastructure with long term PPAs for 300 MW and the company has been successful to enter into short term contracts. We thus expect loss at Dhariwal Infrastructure to reduce further in FY2020 and likely break-even in FY2021E. The Rajasthan distribution franchisee is also expected to materially reduce losses with Bikaner circle is on the verge to become profitable in H1FY2020.

Valuation – Maintain Buy with an unchanged SoTP based PT of Rs. 905

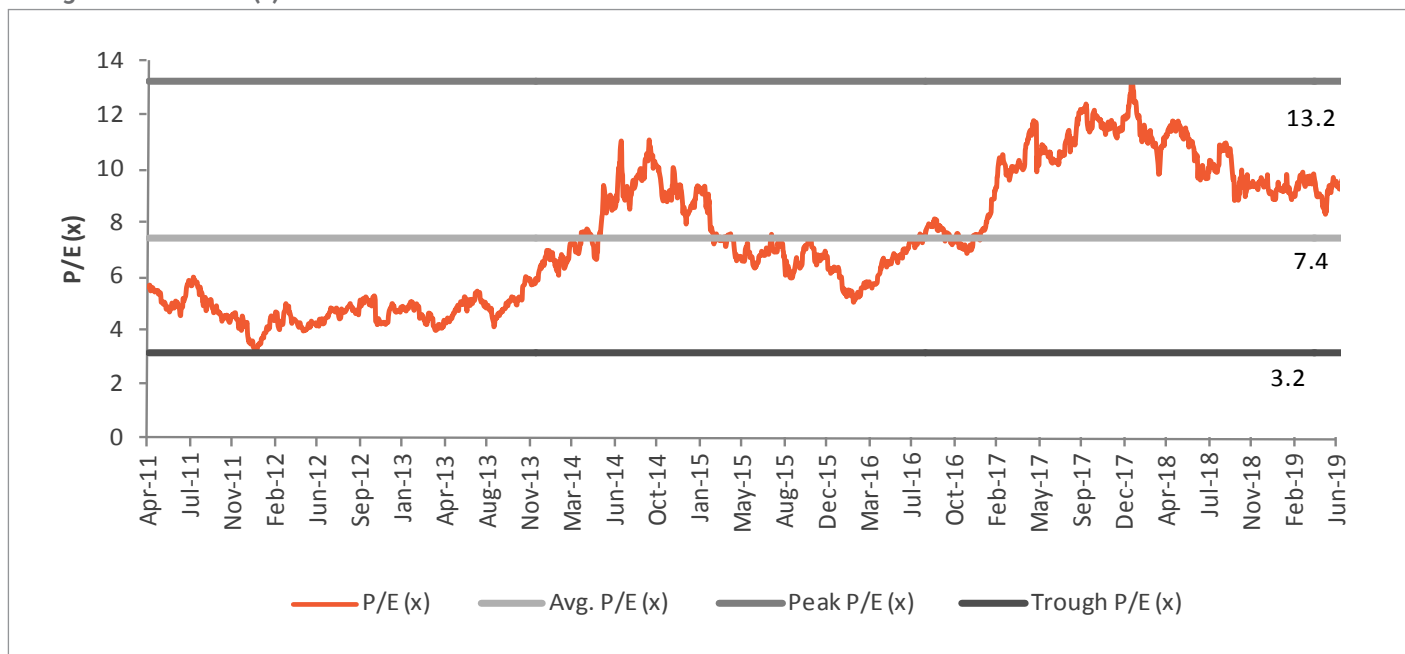
We have marginally lowered our FY2020 earnings estimates to factor in higher other expenses, depreciation and interest costs while maintaining our FY2021 earnings estimates. We expect a gradual re-rating for CESC given: 1) steady earnings contribution from the standalone business and 2) turnaround of Dhariwal Infrastructure and 3) moderation of losses at the Rajasthan distribution franchisee (led by lower T&D losses). Hence, we maintain our Buy rating on CESC with an unchanged SoTP-based price target of Rs. 905. At current market price, the stock is trading at an attractive valuation of 9.1x FY2021E EPS and 0.9x FY2021E book value on a standalone basis.

SoTP-based price target of Rs905

Particulars	Value (Rs/share)	Methodology
Standalone business	612	7x FY21E EPS
Haldia	139	1.7x regulated equity of ~Rs1150 crore
Dhariwal	75	1x regulated equity of ~Rs800 crore
Crescent Power	18	6.5x FY19 PAT for 67.8% stake
Noida	30	2.5x regulated equity of ~Rs400 crore for 49.6% stake
DF	31	1x Investments
Price target	905	

Source: Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

About company

CESC Limited, started operations in 1899, is a fully integrated power utility company. The company is the sole distributor of electricity within an area of 567sq km of Kolkata & Howrah and serves 3.3 million consumers (including domestic, industrial and commercial users). The company own and operates three thermal power plants with generation capacity of 1,125 MW for its Kolkata distribution business. Additionally, CESC has independent power plants at Haldia (600 MW) and Chandrapur (600 MW) along with renewable energy (174 MW wind projects). CESC have distribution licensee with in an area of 335 sq km of Noida and serves 82000 consumers. The company also has distribution franchisee in three cities of Rajasthan (Kota, Bikaner and Bharatpur – all are operational) and one city Maharashtra (Malegaon – operations expected to start soon).

Investment theme

CESC has stable earnings contribution from standalone operations with regulated power generation and distribution businesses getting assured RoE of 15.5% on generation assets and 16.5% for distribution assets. The reducing loss at Dhariwal Infrastructure and Rajasthan distribution franchisee makes CESC an attractive investment proposition. The demerger of non-power business to separate companies could result into re-rating of CESC.

Key Risks

- ◆ Delay in signing of long term PPA for the Chandrapur plant.
- ◆ Sustained losses in distribution franchisee for an extended period

Additional Data

Key management personnel

Sanjiv Goenka	Chairman
Rajarshi Banerjee	Chief Financial Officer
Rabi Chowdhury	Managing Director – Generation
Debasish Banerjee	Managing Director – Distribution

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Rainbow Investments Ltd	44.4
2	HDFC Asset Management Company Ltd	9.1
3	Sun Life Financial Inc	4.5
4	BNK Capital Markets Ltd	2.1
5	ICICI Prudential Asset Management	2.0
6	STEL Holdings Ltd	1.9
7	Franklin Resources Inc	1.8
8	Vanguard Group Inc/The	1.8
9	Life Insurance Corp of India	1.7
10	Abu Dhabi Investment Authority	1.6

Source: Bloomberg

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