CESC (CESC)

CMP: ₹ 625 | Target: ₹ 700 (12%) | Target Period: 12 months | HOLD

June 30, 2020

Result Update

ICICI Securities – Retail Equity Research

Reasonable quarter across the board…

CESC reported a decent operational performance in Q4FY20. Revenues were in line with estimates while lower other expenses led to a beat in EBITDA. However, a shortfall in other income negated the EBITDA beat. Consequently, PAT was marginally lower than estimates. However, on the subsidiaries front, the performance of all generation and distribution subsidiaries has significantly improved across all verticals.

Standalone business generation muted

Energy sold during Q4FY20, in the standalone business declined 8% at 210.7 crore units vs. our estimate of 214.3 crore units while realisation was at ₹ 7.5/kWHR vs. our expectation of 7.3 kWHR. Total generation was down 0.7% YoY at 148.2 crore units. Plant load factor (PLF) of the Budge Budge, southern plants for FY20 were at 88%, 28.6%, respectively. Revenues came in at ₹ 1583 crore vs. our estimate of ₹ 1553.7 crore, mostly in line with estimates. On the other hand, consolidated revenues came in at ₹ 2433 crore in Q4FY20. Higher EBITDA, on account of lower other expenses but lower other income led to PAT beat at ₹ 150 crore vs. expectation of ₹ 167 crore for Q4FY20. Consolidated PAT came in at ₹ 446 crore.

Performance of subsidiaries improving

For FY20, Dhariwal Infra posted an improved financial performance as losses have declined from ₹ 93 crore in FY19 to ₹ 10 crore in FY20. This was on account of Unit 2 being fully tied up under long term PPA and improvement in PLF to 64.1% in FY20. On the other hand, the company is striving to enter into long/medium term PPAs for Unit 1, which will lead the plant to be profitable. The subsidiary sold 310 crore units vs. 295.6 crore units in FY19. Haldia Energy is operating satisfactorily, as PLF for FY20 was at 84.1% and profit for FY20 was at ₹ 318 crore. For Q3FY20, the company has generated 107.3 crore units, which was flat YoY. On the distribution side, losses have declined from ₹ 60 crore in FY19 to ₹ 38 crore in FY20. However, H1FY21E may be challenging for the distribution business as there were days in receivables on account of lockdown.

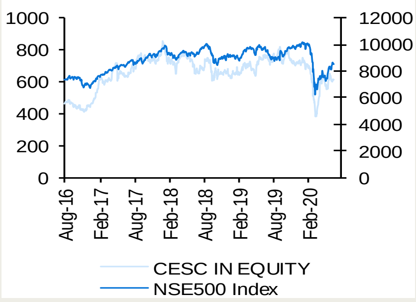
Valuation & Outlook

Lack of growth triggers in the near term will keep consolidated revenues and PAT CAGR at 3.3% and 1.5%, respectively, in FY20-FY2E. The key trigger for re-rating would be finalisation of long/medium term PPA for unit 1 of Dhariwal Infra and better AT&C losses control at distribution companies. With minimal capex, going ahead, we expect the company to pay out higher dividends to shareholders. Valuations at 6.3x FY22E EPS are inexpensive. However, the company lacks any growth trigger in the medium term, which can meaningfully rerate the stock. We downgrade the stock from BUY to **HOLD** with a target price of ₹ 700 per share (7x FY22E EPS).

Particulars

Particular	Amount
Market Capitalization (₹Crore)	7751
Total Debt (FY 20) (₹Crore)	12,181.0
Cash and Investments (₹Crore)	1031
EV (₹Crore)	18901
52 week H/L (₹	855 / 363
Equity capital (₹Crore)	133.2
Face value	₹10

Price Chart



Key Highlights

- Generation down at base business by 0.7% YoY
- Distribution business, outside Kolkata area, posted revenues of ₹ 1631 crore and loss of ₹ 9 crore for FY20, which has improved YoY
- Haldia Energy, Dhariwal Infrastructure report improved performance in FY20
- HOLD rating with target price of ₹ 700

Research Analyst

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Key Financial Summary

₹Crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-FY22E)
Net Sales	10,275	10,664	11,068	11,491	11,809	3.3%
EBITDA	2,931	2,817	2,926	3,242	3,337	6.8%
Net Profit	841	1,148	1,291	1,279	1,329	1.5%
EPS (₹	63.1	86.2	96.9	96.0	99.8	
P/E	9.9	7.3	6.4	6.5	6.3	
RoNW (%)	8.9	11.8	11.9	10.8	11.2	
RoCE (%)	10.5	10.1	10.2	11.3	11.4	
EV / EBITDA	6.6	7.0	6.3	5.3	5.6	
P/BV	1.0	0.9	0.8	0.8	0.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Energy sales net	1,583.0	1,553.7	1,662.0	(4.8)	1,648.0	(3.9)	Revenues higher than estimates
Fuel	340.0	343.7	394.0	(13.7)	301.0	13.0	
Power purchase cost	563.0	575.7	599.0	(6.0)	675.0	(16.6)	
Emplyee expense	262.0	225.0	235.0	11.5	201.0	30.3	
Other cost	167.0	256.4	284.0	(41.2)	194.0	(13.9)	
Total expenses	1,332.0	1,400.8	1,512.0	(11.9)	1,371.0	(2.8)	
EBITDA	251.0	153.0	150.0	67.3	277.0	(9.4)	Higher on account of other expenses
EBITDA Margin (%)	15.9	9.8	9.0	683 bps	16.8	-95 bps	
Depreciation	121.0	110.0	103.0	17.5	110.0	10.0	
Interest	170.0	117.0	109.0	56.0	117.0	45.3	
Other Income	346.0	400.0	455.0	(24.0)	164.0	111.0	
PBT	306.0	326.0	393.0	(22.1)	214.0	43.0	
Extraordinary expenses	0.0	0.0	0.0	0.0	0.0	0.0	
Extraordinary Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Tax	56.0	58.7	84.0	(33.3)	38.0	47.4	
PAT	250.0	267.3	309.0	(19.1)	176.0	42.0	
Key Metrics							
Generation (crore unit)	148.2	143.2	149.3	(0.7)	122.4	21.1	Generation higher than estimates
Sales (crore unit)	210.7	214.3	229.1	(8.0)	211.9	(0.6)	
Tariff rate (₹/Kwh)	7.5	7.3	7.3	3.6	7.8	(3.4)	Tariff higher than estimates

Source: Company, ICICI Direct Research

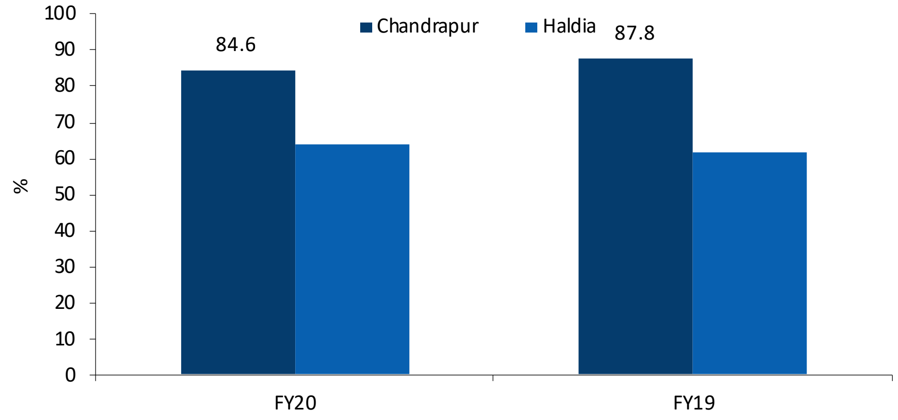
Exhibit 2: Change in estimates

	FY21E			FY22E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue	11,510.0	11,491.0	0.2	-	11,808.8	-
EBITDA	3,186.6	3,242.0	(1.7)	-	3,337.1	-
EBITDA Margin (%)	27.7	28.2	(1.8)	-	28.3	-
PAT	1,251.2	1,278.6	(2.1)	-	1,329.5	-
EPS (₹)	93.9	96.0	(2.2)	-	99.8	-

Source: Company, ICICI Direct Research

Key Chart

Exhibit 3: PLF of subsidiaries



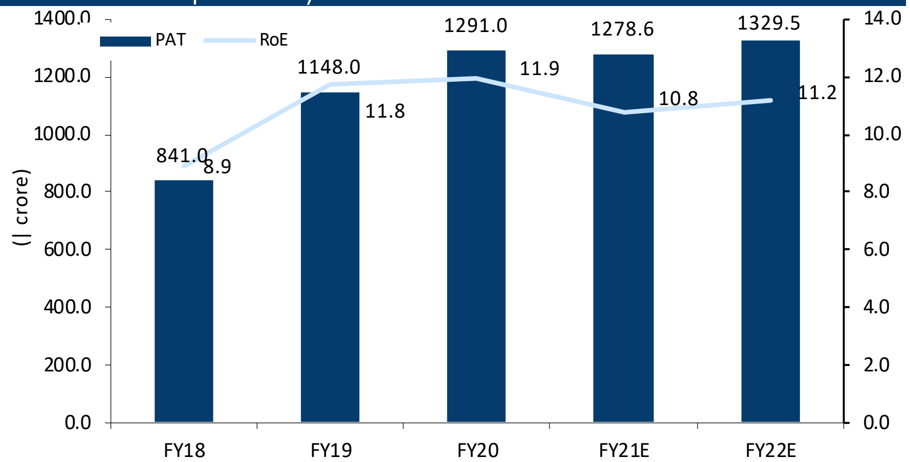
Source: Company, ICICI Direct Research

Exhibit 4: Performance of key subsidiaries

Subsidiaries (₹crore)	Revenue	EBITDA	PAT
FY 20			
Haldia Energy	2289	948	318
Dhariwal Infra	1320	425	-10
Noida Power	1741	255	140
Distribution	1631	9	-38

Source: Company, ICICI Direct Research

Exhibit 5: Trend in profitability



Source: Company, ICICI Direct Research

Improvement in profits of subsidiaries will lead to improvement in PAT to ₹1330 crore by FY22E

Financial summary

Exhibit 6: Profit and loss statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	10,664.0	11,068.0	11,491.0	11,808.8
Growth (%)	3.8	3.8	3.8	2.8
Raw Material Expenses	3,446.0	3,466.0	3,500.7	3,535.7
Cost of Power Purchas	2,106.0	2,264.0	2,264.0	2,377.2
Marketing Expenses	0.0	0.0	0.0	0.0
Administrative Expense	0.0	0.0	0.0	0.0
Other expenses	2,295.0	2,412.0	2,484.4	2,558.9
Total Operating Expendi	7,847.0	8,142.0	8,249.0	8,471.8
EBITDA	2,817.0	2,926.0	3,242.0	3,337.1
Growth (%)	(12.5)	(3.9)	3.9	10.8
Depreciation	764.0	781.0	796.6	820.5
Interest	1,325.0	1,357.0	1,370.6	1,384.3
Other Income	204.0	203.0	300.0	300.0
PBT	932.0	991.0	1,351.4	1,391.7
Others				
Total Tax	695.0	363.0	283.8	292.3
PAT	1,148.0	1,291.0	1,278.6	1,329.5
Growth (%)	34.6	13.5	(0.9)	2.4
EPS (₹	86.2	96.9	96.0	99.8

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit before Tax	932.0	991.0	1,351.4	1,391.7
Add: Depreciation	764.0	781.0	796.6	820.5
(Inc)/dec in Current Asset	(213.5)	(106.0)	(10.4)	1,055.0
Inc/(dec) in CL and Provis	(320.9)	23.6	24.7	(670.3)
Others	(695.0)	(363.0)	(283.8)	(292.3)
CF from operating activitie	466.5	1,326.5	1,878.4	2,304.7
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	(500.0)	(500.0)	(500.0)	(500.0)
Others	(55.0)	0.0	0.0	0.0
CF from investing activitie:	(555.0)	(500.0)	(500.0)	(500.0)
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	(1,138.0)	(400.0)	(400.0)	(400.0)
Dividend paid & dividend t	(265.0)	0.0	0.0	0.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	150.7	165.8	182.3	200.6
CF from financing activitie	(1,252.3)	(234.2)	(217.7)	(199.4)
Net Cash flow	(1,666.5)	965.4	1,478.7	(1,368.6)
Opening Cash	2,752.8	1,086.3	2,051.7	3,530.4
Closing Cash	1,086.3	2,051.7	3,530.4	2,161.9

**calculated, Source: Company, ICICI Direct Research*

Exhibit 8: Balance sheet ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	133.2	133.2	133.2	133.2
Reserve and Surplus	9,630.0	10,693.9	11,729.7	11,753.3
Total Shareholders func	9,763.2	10,827.1	11,862.9	11,886.5
Total Debt	12,612.0	12,181.0	12,281.0	12,381.0
Deferred Tax Liability				
Minority Interest / Other:	4,148.5	4,366.5	4,603.7	4,861.9
Total Liabilities	26,523.7	27,374.6	28,747.7	29,129.5
Assets				
Gross Block	35,642.7	36,142.7	36,642.7	37,142.7
Less: Acc Depreciation	10,090.6	10,090.6	10,090.6	10,090.6
Net Block	25,552.1	26,052.1	26,552.1	27,052.1
Capital WIP	218.0	218.0	218.0	218.0
Total Fixed Assets	27,941.1	28,441.1	28,941.1	29,441.1
Deferred Tax asset	310.5	310.5	310.5	310.5
Investments	1,419.0	1,419.0	1,419.0	1,419.0
Inventory	1,038.5	1,044.5	1,055.0	0.0
Debtors	2,000.0	2,100.0	2,100.0	2,100.0
Loans and Advances	853.1	885.4	919.3	0.0
Other Current Assets	1,756.0	1,756.0	1,756.0	1,756.0
Cash	1,086.3	2,051.7	3,530.4	2,161.9
Total Current Assets	6,734.0	7,837.7	9,360.7	6,017.9
Creditors	622.1	645.6	670.3	0.0
Provisions	4,237.6	4,590.7	4,864.2	873.0
Total Current Liabilities	4,859.7	5,236.4	5,534.6	873.0
Net Current Assets	1,874.3	2,601.3	3,826.2	5,144.9
Others Assets	745.3	745.3	745.3	745.3
Application of Funds	26,523.7	27,374.6	28,747.6	29,129.5

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹				
EPS	86.2	96.9	96.0	99.8
Cash EPS	143.5	155.5	157.5	164.4
BV	669.0	748.9	826.6	828.4
DPS	17.0	19.0	20.0	20.0
Cash Per Share	81.5	154.0	265.0	162.3
Operating Ratios (%)				
EBITDA Margin	26.4	26.4	28.2	28.3
PBT / Total Operating inc	8.7	9.0	11.8	11.8
PAT Margin	11.2	12.3	11.7	11.7
Inventory days	110.0	110.0	110.0	110.0
Debtor days	68.5	69.3	66.7	64.9
Creditor days	21.0	21.0	21.0	21.0
Return Ratios (%)				
RoE	11.8	11.9	10.8	11.2
RoCE	10.1	10.2	11.3	11.4
RoIC	3.9	4.3	4.0	4.2
Valuation Ratios (x)				
P/E	7.3	6.4	6.5	6.3
EV / EBITDA	7.0	6.3	5.3	5.6
EV / Net Sales	1.9	1.7	1.5	1.6
Market Cap / Sales	0.7	0.7	0.7	0.7
Price to adjusted Book V	0.9	0.8	0.8	0.8
Solvency Ratios				
Debt/EBITDA	4.5	4.2	3.8	3.7
Debt / Equity	1.3	1.1	1.0	1.0
Current Ratio	1.5	1.7	1.9	1.9
Quick Ratio	0.2	0.4	0.7	0.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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