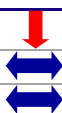


Estimate change
TP change
Rating change


Bloomberg	CESC IN
Equity Shares (m)	133
M.Cap.(INRb)/(USD\$)	81.6 / 1.1
52-Week Range (INR)	855 / 366
1, 6, 12 Rel. Per (%)	5/1/-25
12M Avg Val (INR M)	316

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	110.1	98.5	110.5
EBITDA	35.4	30.2	33.3
Adj. PAT	13.0	9.6	12.9
EBITDA Margin (%)	32.1	30.6	30.2
Cons. Adj. EPS (INR)	97.7	71.8	97.0
EPS Gr. (%)	10.0	-26.5	35.0
BV/Sh. (INR)	722.7	771.5	842.5

Ratios

Net D:E	1.3	1.1	0.9
RoE (%)	14.0	9.6	12.0
RoCE (%)	9.4	7.8	8.7
Payout (%)	20.5	32.0	26.8

Valuations

P/E (x)	6.3	8.6	6.3
P/BV (x)	0.9	0.8	0.7
EV/EBITDA(x)	5.8	6.5	5.6
Div. Yield (%)	3.3	3.7	4.2
FCF Yield (%)	27.6	28.1	28.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	49.9	49.9	49.9
DII	23.8	22.8	24.0
FII	17.9	18.5	16.0
Others	8.4	8.8	10.1
FII Includes depository receipts			

CMP: INR615
TP: INR760 (+24%)
Buy
S/A impacted by lower volumes
S/A impacted by lower demand; performance at Dhariwal improves

- CESC's 1Q results highlight the impact of lower volumes on the S/A business. S/A PAT declined sharply by 38% YoY, resulting in a miss on our estimates (29% miss). Consol. PAT, on the other hand, declined 15% YoY, partly supported by a better performance at Dhariwal.
- While a muted power demand environment has impacted profitability in the near term, the longer term story remains intact. Performances at Dhariwal and distribution franchises (DFs) continue to improve. Despite factoring the tightening of norms at Haldia and S/A, the stock trades attractively at 7x FY21 P/E. Maintain Buy, with TP of INR760/sh.

S/A profitability impacted by decline in volumes

- S/A PAT declined ~38% YoY to INR1.3b (29% below our estimate of INR1.9b). This was largely on account of decline in sales volumes (-31% YoY) to 2.1BU. This, given the lack of a revised tariff order, impacted efficiency gains, in our view.
- Consolidated PAT decreased ~15% YoY to INR2.0b in the quarter, partly supported by an improved performance at Dhariwal.

Dhariwal improves on new PPA, coal cess pass-through

- Dhariwal reported profit of INR240m (v/s loss of ~INR240m in 1QFY20) on account of a new PPA signed and the pass-through of higher coal cess in tariff. Dhariwal had signed a 185MW PPA with Maharashtra in 3QFY20, and the same has been extended up to 31st Oct'20.
- Losses at DFs in Rajasthan declined to INR330m in 1QFY21, from INR530m in 1QFY20, despite lower demand. The co.'s recently acquired Malegaon DF reported loss of INR310m in 1QFY21 due to collection issues.
- Profits at Haldia improved to INR850m in 1QFY21, v/s INR760m in 1QFY20, owing to O&M savings. Profits at Crescent and Surya increased to INR120m in 1QFY21 v/s INR30m in 1QFY20.

Strong FCF generation; maintain Buy

- Subdued power demand would impact the profitability of CESC's businesses in the near term. However, the medium-term story remains intact. Dhariwal's 170MW PPA with Maharashtra from Nov'19 has been extended for another six months. The performances of its DFs should improve as the co. gains a better understanding of the circles and leverages from its experience in Kolkata.
- CESC's existing Distribution business has high RoE and delivers steady growth. Generation assets generate healthy FCF. The stock trades at an attractive ~6x FY22E P/E, even as earnings visibility at Dhariwal improves, and factoring the tightening of norms at Haldia and S/A.
- Untied generation capacity and the scale-up of DFs have the potential to boost earnings. We value the stock at 9x 1yr forward P/E. Maintain Buy, with TP of INR760/sh.

Quarterly performance (standalone) – INR m

Y/E March	FY20				FY21				FY20	FY21E	FY21 1QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Sales	23,590	22,460	16,480	15,830	15,850	19,787	15,719	21,876	78,359	73,232	20,566	-23
EBITDA	4,420	4,630	2,770	2,510	2,280	4,752	4,101	7,670	14,328	18,803	4,484	-49
Change (%)	-10.9	-9.4	37.1	67.3	-48.4	2.6	48.1	205.6	5.5	31.2	1.5	
As of % Sales	18.7	20.6	16.8	15.9	14.4	24.0	26.1	35.1	18.3	25.7	21.8	
Depreciation	1,090	1,080	1,100	1,210	1,170	1,130	1,151	1,233	4,477	4,683	1,140	3
Interest	1,300	1,270	1,170	1,700	1,360	1,248	1,150	1,590	5,442	5,348	1,277	6
Other Income	230	450	290	490	340	451	290	380	1,459	1,461	230	48
Regulatory (inc)/exp	-500	-480	-1,350	-2,970	-1,450	0	0	0	-5,319	0	0	
PBT	2,760	3,210	2,140	3,060	1,540	2,825	2,091	5,227	11,186	10,233	2,297	-33
Tax	590	460	380	560	200	508	376	680	2,009	1,842	413	
Effective Tax Rate (%)	21.4	14.3	17.8	18.3	13.0	18.0	18.0	13.0	18.0	18.0	18.0	
Reported PAT	2,170	2,750	1,760	2,500	1,340	2,316	1,715	4,547	9,178	8,391	1,883	-29
Adjusted PAT	2,170	2,750	1,760	2,500	1,340	2,316	1,715	4,547	9,178	8,391	1,883	-29
Change (%)	17.9	1.5	1.7	-19.1	-38.2	-15.8	-2.6	81.9	-2.0	-8.6	-13.2	

Source: Company, MOFSL

Exhibit 1: Standalone – operating metrics

		1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Units sold	MU	2,840	2,873	2,113	2,291	3,057	2,923	2,119	2,107	2,118
change yoy	%	-0.5	4.1	-9.9	-4.3	7.6	1.7	0.3	-8.0	-30.7
Realization	INR/kWh	7.6	7.7	8.1	7.3	7.7	7.7	7.8	7.5	7.5
T&D loss	%	9.7	9.7	9.8	7.7	9.0	9.0	9.0	8.8	8.5
Gross generation	MU	1,709	1,732	1,364	1,494	1,718	1,713	1,224	1,483	1,329
change yoy	%	-1.6	-0.3	0.5	-0.8	0.5	-1.1	-10.3	-0.7	-22.6
Generation fuel cost	INR/kWh	2.3	2.5	2.5	2.6	2.7	2.7	2.4	2.3	2.5
Power purchase	MU	1,608	1,603	1,327	1,043	1,774	1,657	1,267	933	1,091
Power purchase cost	INR/kWh	5.2	5.1	5.6	5.7	5.0	5.1	5.3	6.0	5.7

Source: Company, MOFSL

Exhibit 2: Consolidated PAT breakup – INR m

INR m	1QFY20	1QFY21
Standalone	2,170	1,340
Haldia	760	850
Dhariwal	-240	240
Crescent & Surya	30	120
Rajasthan DFs	-530	-330
Malegaon		-310
Noida	130	90
Others	-10	0
Minority	10	-20
Consolidated PAT	2,320	1,980

Source: Company, MOFSL

Valuation and view

- Subdued power demand with the onset of COVID-19 has impacted volumes in the Distribution and Generation businesses. Accordingly, profitability would be impacted in the near term amid lower efficiency gains and the lack of new tariff order approvals.
- However, the medium-term story remains intact for CESC. Earnings visibility is improving at Dhariwal and DFs. The recent signing of a PPA at Dhariwal should help reduce loss. We also expect the performances of DFs to improve as it gains a better understanding of the circles and leverages from its experience in Kolkata.
- CESC's generation assets generate healthy FCF. Its existing Distribution business has high RoE and delivers steady growth.
- Despite factoring the tightening of norms at Haldia and S/A, the stock trades at an attractive ~6x FY22E P/E. Untied generation capacity and the scale-up of DFs have the potential to boost earnings. We value the stock at 9x 1yr forward P/E. Maintain Buy, with TP of INR760/sh.

Financials and valuations

Income Statement						(INR m)		
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	121,242	83,634	102,749	106,641	110,146	98,511	110,477	115,156
Change (%)	9.6	-31.0	22.9	3.8	3.3	-10.6	12.1	4.2
EBITDA	29,792	27,845	29,991	33,867	35,355	30,158	33,320	34,025
% of Net Sales	24.6	33.3	29.2	31.8	32.1	30.6	30.2	29.5
Depn. & Amortization	7,665	7,148	7,515	7,638	7,814	8,084	8,259	8,927
EBIT	22,128	20,697	22,477	26,230	27,541	22,074	25,061	25,098
Net Interest	14,943	13,724	13,030	13,247	13,574	12,345	11,537	10,659
Other income	2,637	2,300	2,520	2,043	2,025	1,649	1,786	1,878
EO expense	40	0	0	0	0	0	0	0
PBT after EO	9,781	9,273	11,967	15,025	15,992	11,378	15,310	16,318
Tax	3,130	3,210	3,562	3,737	3,627	2,243	2,868	3,073
Rate (%)	32.0	34.6	29.8	24.9	22.7	19.7	18.7	18.8
Reported PAT	6,651	6,063	8,405	11,288	12,365	9,135	12,442	13,245
Minority and Associates	-666	-710	-129	552	655	437	481	528
Adjusted PAT	6,024	5,354	8,276	11,840	13,021	9,571	12,923	13,773
Change (%)	203.5	-11.1	54.6	43.1	10.0	-26.5	35.0	6.6

Balance Sheet						(INR m)		
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	1,332	1,332	1,332	1,332	1,332	1,332	1,332	1,332
Reserves	104,705	104,895	82,870	88,406	94,942	101,449	110,908	120,710
Net Worth	106,037	106,227	84,202	89,738	96,274	102,782	112,241	122,042
Minority Interest	10,920	12,101	694	821	858	891	919	939
Total Loans	148,676	155,994	145,778	144,721	139,909	131,638	123,105	113,324
Deferred Tax Liability	38,307	38,873	36,410	39,404	40,053	40,053	40,053	40,053
Capital Employed	303,939	313,194	267,083	274,684	277,094	275,365	276,317	276,358
Gross Block	253,136	267,642	268,271	276,618	286,327	293,997	301,672	309,350
Less: Accum. Deprn.	10,071	1,380	29,736	40,132	50,462	58,546	66,805	75,732
Net Fixed Assets	243,065	266,262	238,535	236,485	235,866	235,452	234,867	233,618
Capital WIP	5,049	3,919	2,166	1,614	1,468	1,468	1,468	1,468
Goodwill	22,500	0	0	0	0	0	0	0
Investments	3,537	4,224	6,673	6,724	6,703	7,173	7,681	8,228
Curr. Assets	93,781	104,322	82,499	89,859	99,685	97,850	100,113	101,748
Inventories	6,967	8,454	5,826	7,005	7,184	5,937	6,629	6,878
Account Receivables	14,132	15,596	15,374	17,389	18,818	17,392	17,332	17,959
Cash and Bank Balance	17,894	22,931	17,003	15,437	18,060	19,098	20,729	21,488
Others	54,788	57,340	44,296	50,029	55,623	55,424	55,424	55,424
Curr. Liability & Prov.	63,993	65,533	62,791	60,000	66,627	66,577	67,811	68,703
Account Payables	5,951	7,890	6,907	6,778	6,568	6,085	6,818	7,106
Provisions & Others	58,041	57,642	55,884	53,222	60,058	60,492	60,993	61,597
Net Curr. Assets	29,789	38,789	19,708	29,860	33,058	31,272	32,302	33,045
Appl. of Funds	303,939	313,194	267,083	274,684	277,094	275,365	276,317	276,358

Financials and valuations

Ratios	2016	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)								
EPS	45.2	40.2	62.1	88.9	97.7	71.8	97.0	103.4
Cash EPS	102.8	93.8	118.5	146.2	156.4	132.5	159.0	170.4
BV/Share	796.0	797.4	632.0	673.6	722.7	771.5	842.5	916.1
DPS	10.0	10.0	12.0	17.5	20.0	23.0	26.0	27.0
Payout (%)	22.1	24.9	19.3	19.7	20.5	32.0	26.8	26.1
Valuation (x)								
P/E	13.6	15.3	9.9	6.9	6.3	8.6	6.3	6.0
Cash P/E	6.0	6.6	5.2	4.2	3.9	4.6	3.9	3.6
P/BV	0.8	0.8	1.0	0.9	0.9	0.8	0.7	0.7
EV/EBITDA	7.5	8.2	7.0	6.3	5.8	6.5	5.6	5.1
Dividend Yield (%)	1.6	1.6	2.0	2.8	3.3	3.7	4.2	4.4
Return Ratios (%)								
RoE	7.2	5.0	8.7	13.6	14.0	9.6	12.0	11.8
RoCE (post-tax)	8.4	6.4	7.4	9.1	9.4	7.8	8.7	8.7
RoIC (post-tax)	7.1	5.0	6.0	8.0	8.5	7.1	8.2	8.3
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.3	0.4	0.5	0.5	0.4	0.5	0.5
Asset Turnover (x)	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Debtor (Days)	43	68	55	60	62	64	57	57
Leverage Ratio (x)								
Net Debt/EBITDA	4.4	4.8	4.3	3.8	3.4	3.7	3.1	2.7
Debt/Equity	1.1	1.1	1.5	1.4	1.3	1.1	0.9	0.7

Cash Flow Statement	(INR m)							
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
EBITDA	29,792	27,845	29,991	33,867	35,355	30,158	33,320	34,025
WC	-5,805	-918	-6,336	-9,779	1,580	2,824	601	17
Others	4,128	3,081	4,393	7,731	2,185	0	0	0
Direct taxes (net)	-3,311	-3,457	-3,727	-3,168	-2,461	-2,243	-2,868	-3,073
CF from Op. Activity	24,804	26,552	24,321	22,939	30,033	30,738	31,054	30,969
Capex	-12,675	-14,720	-8,944	-8,317	-7,410	-7,670	-7,674	-7,679
Interest income	329	375	311	340	315	0	0	0
Investments	-309	-634	568	0	0	0	0	0
Others	1,102	1,064	-7,695	2,276	5,339	1,649	1,786	1,878
CF from Inv. Activity	-11,554	-13,915	-15,760	-5,702	-1,757	-6,021	-5,888	-5,800
Share capital	117	158	22	0	0	0	0	0
Borrowings	6,390	8,622	854	-1,246	-4,892	-8,270	-8,534	-9,781
Finance cost	-15,303	-15,036	-13,828	-13,336	-13,306	-12,345	-11,537	-10,659
Dividend	-3,009	-1,599	-1,902	-2,790	-3,188	-3,064	-3,464	-3,597
Others	-5	256	365	0	86	0	0	0
CF from Fin. Activity	-11,809	-7,599	-14,490	-17,373	-21,299	-23,679	-23,534	-24,037
(Inc)/Dec in Cash	1,441	5,037	-5,928	-135	6,977	1,038	1,631	1,132
Opening balance	16,453	17,894	22,931	17,003	15,437	18,060	19,098	20,729
Closing balance	17,894	22,931	17,003	16,868	22,414	19,098	20,729	21,860

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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