

Q1FY21 result review

Utilities

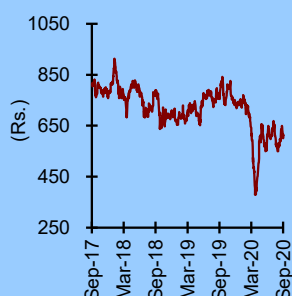
Target price Rs851

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	49.9	49.9	49.9
Institutional investors	41.5	41.3	41.7
MFs and other	18.5	18.5	19.7
FIs/Bank	3.7	3.8	3.6
FII	19.3	19.0	18.4
Others	8.6	8.8	8.4

Source: www.nseindia.com

Price chart



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CESC

BUY

Maintained

Rs616

Good results in a challenging environment

CESC has reported better-than-expected earnings for its consolidated business in Q1FY21 despite being affected by the lockdown. Standalone/consolidated PAT came in at Rs13.4bn/Rs2bn (-38.2%/-13.4% YoY) mainly due to combined loss of Rs640mn at Rajasthan distribution franchises (PAT -37.7% YoY) and the recently-started Malegaon DF. However, the loss was partly offset by good performance at Chandrapur (PAT Rs240mn vs loss of Rs240mn in Q1FY20). Lockdown affected not only the DF businesses, but also incentive income in the regulated business though DF losses were lower than expected. There was fixed-cost under-recovery, which is expected to be addressed in the coming quarters. We maintain our BUY rating and target price of Rs851/share on CESC.

- **Consolidated PAT improves:** Standalone PAT came in at Rs1.34bn, down 38.2% YoY while consolidated PAT fell 13.4% YoY to Rs2bn. Consolidated revenue / EBITDA were down 21.5% / 10.5% YoY at Rs26bn / Rs7.6bn. Standalone revenue / EBITDA were down 28.2% / 24.5% to Rs17.3bn / Rs3.7bn. There was fixed-cost under-recovery at standalone units, which is expected to be addressed by reducing employee cost in the coming quarters. Though volumes declined at Kolkata and Noida too during Q1FY21, their base RoEs were protected by virtue of their being regulated businesses. However, their incentive income was impacted.
- **Lockdown impacts demand; both standalone and Haldia generation decline:** During Q1FY21, standalone units' generation was down 22.6% to 1,329MU while Haldia operated at a PLF of 77% (down 12.6% YoY). Yet, Haldia's profits increased by 11.8% YoY to Rs850mn. Sales at Kolkata were down 30.7% YoY at 2,118MU.
- **Chandrapur was the bright spot during the quarter:** Chandrapur operated at a PLF of 76% vs 71% YoY with 913MU sold in Q1FY21. More importantly, for the second quarter in a row, Chandrapur made profit with a PAT of Rs240mn vs loss of Rs240mn in Q1FY20. Chandrapur's unit-2 is fully tied-up and is continuing to sell power under long-term PPAs at high PLFs, and repayment of debt is underway. The PPA with Maharashtra for the supply of 185MW is extended to 31st Oct'20. The plant's unit-2 also received favourable orders towards claims made in relation to change in law and other items.
- **Distribution businesses performance affected still better than expected:** For Q1FY21, profit of Noida Power declined 37% YoY to Rs1.7bn as the regulator reduced RoE from 16% to 15% from FY21 onwards. Rajasthan DFs' losses reduced by 37.7% YoY to Rs330mn due to improvement in AT&C losses over the past year. Nevertheless, lockdown severely impacted both demand and collections of DFs. CESC also took over the Malegaon DF in Mar'20 and Q1FY21 being its first full operating quarter, its revenue / loss came in at Rs520mn / Rs310mn. DF businesses are estimated to remain loss-making in FY21E.
- **Maintain BUY:** We maintain our **BUY** rating on CESC with a target price of Rs851/share. The stock is currently trading at FY22E P/E of 6.7x and P/BV of 0.7x.

Market Cap	Rs82bn/US\$1.1bn
Reuters/Bloomberg	CESC.BO/CESC IN
Shares Outstanding (mn)	132.6
52-week Range (Rs)	842/378
Free Float (%)	50.1
FII (%)	18.4
Daily Volume (US\$'000)	4,522
Absolute Return 3m (%)	(5.1)
Absolute Return 12m (%)	(19.2)
Sensex Return 3m (%)	12.3
Sensex Return 12m (%)	4.9

Year to March (con)	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	112,340	116,770	112,994	117,565
Net Income (Rs mn)	11,980	13,060	11,525	12,837
EPS (Rs)	89.9	98.0	86.5	96.4
% Chg YoY	34.6	9.0	(11.8)	11.4
P/E (x)	6.8	6.3	7.4	6.7
CEPS (Rs)	147.3	156.7	147.0	158.5
EV/E (x)	6.7	6.3	6.2	5.7
Dividend Yield	2.0	2.0	2.0	2.0
RoCE (%)	9.4	9.8	9.1	9.5
RoE (%)	13.3	13.6	10.9	11.0

Table 1: Q1FY21 result review (standalone)

(Rs mn, year ending March 31)

Particulars	Q1FY21	Q4FY20	Q1FY20	QoQ (%)	YoY (%)
Units Generated	1,329	1,483	1,718	(10.4)	(22.6)
Net Sales	17,300	18,800	24,110	(8.0)	(28.2)
Fuel Costs	3,370	3,400	4,640	(0.9)	(27.4)
Personnel Cost	2,400	2,620	2,610	(8.4)	(8.0)
Power Purchased	6,260	5,630	8,850	11.2	(29.3)
Other Expenses	1,540	1,670	3,070	(7.8)	(49.8)
Total Expenses	13,570	13,320	19,170	1.9	(29.2)
EBITDA	3,730	5,480	4,940	(31.9)	(24.5)
Interest	1,360	1,700	1,300	(20.0)	4.6
Depreciation	1,170	1,210	1,090	(3.3)	7.3
Other Income	340	490	230	(30.6)	47.8
Recurring pre-tax income	1,540	3,060	2,780	(49.7)	(44.6)
Taxation	200	560	610	(64.3)	(67.2)
Reported Net Income	1,340	2,500	2,170	(46.4)	(38.2)

Source: Company data, I-Sec research

Table 2: Q1FY21 result review (consolidated)

(Rs mn, year ending March 31)

Particulars	Q1FY21	Q4FY20	Q1FY20	QoQ (%)	YoY (%)
Units Generated	3,327	3,331	3,797	(0.1)	(12.4)
Net Sales	26,070	27,450	33,230	(5.0)	(21.5)
Fuel Costs	7,790	7,430	10,050	4.8	(22.5)
Personnel Cost	2,700	2,920	2,860	(7.5)	(5.6)
Power Purchased	5,420	4,780	7,680	13.4	(29.4)
Other Expenses	2,520	2,950	4,100	(14.6)	(38.5)
Total Expenses	18,430	18,080	24,690	1.9	(25.4)
EBITDA	7,640	9,370	8,540	(18.5)	(10.5)
Interest	3,200	3,600	3,440	(11.1)	(7.0)
Depreciation	2,020	2,050	1,920	(1.5)	5.2
Other Income	450	1,010	300	(55.4)	50.0
Share in Profit/(loss) from associates & JVs	90	90	130	0.0	(30.8)
Recurring PBT	2,960	4,820	3,610	(38.6)	(18.0)
Tax	960	360	1,300	166.7	(26.2)
Reported Net Income	2,000	4,460	2,310	(55.2)	(13.4)
Minority	20	70	(10)		
Net income	1,980	4,390	2,320	(54.9)	(14.7)

Source: Company data, I-Sec research

Table 3: Business/subsidiary-wise performance

Business/subsidiary	Revenue (Rs mn)			PAT (Rs mn)		
	Q1FY21	Q1FY20	YoY (%)	Q1FY21	Q1FY20	YoY (%)
CESC Ltd (Consolidated)	24,650	32,570	-24.3%	2,000	2,310	24,650
Haldia Energy Ltd	5,400	5,750	-6.1%	850	760	5,400
Dhariwal Infrastructure Ltd	3,520	3,660	-3.8%	240	(240)	3,520
Crescent Power & Surya Vidyut	700	770	-9.1%	120	30	700
Noida Power	3,270	4,560	-28.3%	170	270	3,270
Kota/Bharatpur/Bikaner	3,760	4,340	-13.4%	(330)	(530)	3,760
Malegaon	520			(310)		520

Source: Company data, I-Sec research

Table 4: Business/subsidiary-wise operational performance

Particulars	Business/ Subsidiary	Q1FY21	Q1FY20	YoY (%)
Generation (MU)		1,329	1,718	-22.6%
Power Purchase (MU)	Standalone	1,091	1,774	-38.5%
Total Sales (MU)		2,118	3,057	-30.7%
Generation (MU)		1,329	1,576	-15.7%
PLF (%)	Budge Budge	81.00	96	-15.8%
Generation (MU)		-	142	-100.0%
PLF (%)	Southern	-	48	-100.0%
Units Sold (MU)		927	1,058	-12.4%
PLF (%)	Haldia	77	88	-12.6%
Units Sold (MU)		913	850	7.4%
PLF (%)	Chandrapur	76	71	7.1%

Source: Company data, I-Sec research

Financial summary (consolidated; restated)

Table 5: Profit and loss statement
(Rs mn, year ending March 31)

	FY17	FY18	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	83,634	102,749	112,340	116,770	112,994	117,565
Operating Expenses	56,245	73,432	78,470	81,420	78,753	81,865
EBITDA	27,845	29,991	33,870	35,350	34,241	35,700
% margins	33.3	29.2	30.1	30.3	30.3	30.4
Depreciation & Amortisation	7,148	7,515	7,640	7,810	8,063	8,275
Gross Interest	13,724	13,030	13,250	13,570	13,230	12,823
Other Income	2,300	2,520	2,040	2,030	2,113	2,199
Recurring PBT	8,564	12,464	15,710	16,690	15,365	17,121
Less: Taxes	3,210	3,562	3,730	3,630	3,840	4,284
Net Income (Reported)	6,703	9,753	11,980	13,060	11,525	12,837
PAT (ex-discontinued ops)	5,149	8,902	11,980	13,060	11,525	12,837

Source: Company data, I-Sec research

* historical data not available on account of demerger

Table 6: Balance sheet
(Rs mn, year ending March 31)

	FY17	FY18	FY19	FY20	FY21E	FY22E
Assets						
Total Current Assets	51,170	39,641	42,676	50,270	50,327	56,967
of which cash & cash eqv.	16,061	11,940	10,307	17,910	14,694	20,382
Total Current Liabilities & Provisions	24,860	24,637	26,016	27,722	27,987	28,062
Net Current Assets	26,311	15,004	16,660	22,549	22,340	28,905
Investments						
of which	11,095	11,737	11,855	6,850	6,850	6,850
Strategic/Group	4,224	6,673	6,724	6,700	6,700	6,700
Other Marketable	6,871	5,064	5,130	150	150	150
Net Fixed Assets	246,156	238,535	236,485	235,870	233,689	229,414
Capital Work-in-Progress	3,919	2,166	1,614	1,470	1,470	1,470
Other fixed assets	62,310	37,783	42,053	49,260	49,260	49,260
Total Assets	349,791	305,226	308,667	315,999	313,609	315,899
Liabilities						
Borrowings	155,942	145,778	144,721	140,409	128,280	119,522
Deposits from Customers	16,190	15,067	14,843	16,280	16,280	16,280
Equity Share Capital	1,332	1,332	1,332	1,332	1,332	1,332
Face Value per share (Rs)	10	10	10	10	10	10
Reserves & Surplus*	104,895	82,870	88,406	94,938	104,582	115,538
Less: Misc. Exp. #.	-	-	-	-	-	-
Net Worth	106,227	84,202	89,738	96,270	105,914	116,870
Minority interest	12,101	694	821	860	955	1,047
Other non-current liabilities	59,332	59,486	58,544	62,180	62,180	62,180
Total Liabilities	349,791	305,226	308,667	315,999	313,608	315,900

Source: Company data, I-Sec research

* historical data not available on account of demerger

Table 7: Quarterly trend - standalone
(Rs mn, year ending March 31)

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	21,530	22,960	19,070	19,160	24,110	22,940	17,830	18,800	17,300
% growth (YoY)	8.2	9.5	7.4	-1.7	14.0	-0.1	-6.5	-8.1	-22.6
EBITDA	4,450	5,540	4,020	5,330	4,940	5,110	4,120	5,480	3,730
Margin (%)	21.1	24.5	21.1	26.1	20.5	22.3	23.1	29.1	21.6
Other income	200	280	450	720	230	230	290	490	340
Add: Extraordinaries	-	-	-	-	-	-	-	-	-
Net profit	1,820	2,770	1,730	3,090	2,170	2,170	1,760	2,500	1,340

Source: Company data, I-Sec research

* historical data not available on account of demerger

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY17	FY18	FY19	FY20	FY21E	FY22E
Operating Cashflow	12,829	16,273	17,580	18,840	17,475	18,913
Working Capital Chgs	(918)	(6,336)	(3,565)	916	(3,008)	(877)
Capital Commitments	(15,527)	(10,317)	(8,397)	(7,170)	(5,882)	(4,000)
Free Cashflow	(3,616)	(380)	5,618	12,586	8,585	14,036
Cashflow from Investing Activities	2,300	2,651	1,973	7,010	2,113	2,199
Issue of Share Capital	158	22	-	-	-	-
Buyback of shares	-	-	-	-	-	-
Inc (Dec) in Borrowings	24,658	19,428	(1,056)	(4,313)	(12,129)	(8,758)
Dividend paid	(1,599)	(1,902)	(1,881)	(1,881)	(1,881)	(1,881)
Extraordinary Items	(20)	49	(30)	-	-	-
Chg. in Cash & Bank balance	12,445	3,654	(5,171)	6,699	(3,216)	5,689

Source: Company data, I-Sec research

* historical data not available on account of demerger

Table 9: Key ratios

(Rs mn, year ending March 31)

	FY17	FY18	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)						
EPS(Basic Recurring)	38.6	66.8	89.9	98.0	86.5	96.4
Diluted Recurring EPS	38.6	66.8	89.9	98.0	86.5	96.4
Recurring Cash EPS	92.3	123.2	147.3	156.7	147.0	158.5
Dividend per share (DPS)	10.2	12.1	12.0	12.0	12.0	12.0
Book Value per share (BV)	797	632	674	723	795	877
Growth Ratios (%)						
Operating Income	NM	22.9	9.3	3.9	(3.2)	4.0
EBITDA	NM	7.7	12.9	4.4	(3.1)	4.3
Recurring Net Income	NM	72.9	34.6	9.0	(11.8)	11.4
Diluted Recurring EPS	NM	72.9	34.6	9.0	(11.8)	11.4
Diluted Recurring CEPS	NM	33.5	19.5	6.4	(6.1)	7.8
Valuation Ratios (x)						
P/E	15.9	9.2	6.8	6.3	7.4	6.7
P/CEPS	6.7	5.0	4.2	3.9	4.4	4.1
P/BV	0.8	1.0	0.9	0.9	0.8	0.7
EV / EBITDA	8.5	7.6	6.7	6.3	6.2	5.7
EV / Operating Income	2.8	2.2	2.0	1.9	1.9	1.7
EV / Operating FCF	18.5	14.0	12.9	11.8	12.2	10.8
Operating Ratios						
Raw Material/Sales (%)	41.3	47.3	49.2	48.9	47.0	46.6
SG&A/Sales (%)	10.4	9.4	9.2	9.3	10.2	10.4
Other Income / PBT (%)	24.8	21.1	13.6	12.7	14.0	13.1
Effective Tax Rate (%)	35.7	28.7	24.1	25.5	25.5	25.5
NWC / Total Assets (%)	7.5	4.9	5.4	7.1	7.1	9.2
Inventory Turnover (days)	36.7	20.6	22.8	22.4	24.0	23.2
Receivables (days)	67.7	54.3	56.5	58.8	70.6	70.6
Payables (days)	84.0	54.6	47.6	50.9	56.6	55.4
D/E Ratio (x)	1.3	1.6	1.5	1.3	1.1	0.8
Profitability Ratios (%)						
Recurring Net Income Margins	6.2	8.7	10.7	11.2	10.2	10.9
RoCE	5.3	7.9	9.4	9.8	9.1	9.5
RoNW	4.8	10.6	13.3	13.6	10.9	11.0
Dividend Payout Ratio	26.4	18.2	13.3	12.2	13.9	12.5
Dividend Yield	1.7	2.0	2.0	2.0	2.0	2.0
EBITDA Margins	33.3	29.2	30.1	30.3	30.3	30.4

Source: Company data, I-Sec research

* historical data not available on account of demerger

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