

Estimate change



TP change

Rating change



Bloomberg	CESC IN
Equity Shares (m)	133
M.Cap.(INRb)/(USD\$)	90.6 / 1.2
52-Week Range (INR)	784 / 366
1, 6, 12 Rel. Per (%)	3/-31/-26
12M Avg Val (INR M)	276

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	110.1	106.6	110.8
EBITDA	35.4	34.1	33.5
Adj. PAT	13.0	13.0	12.9
EBITDA Margin (%)	32.1	32.0	30.2
Cons. Adj. EPS (INR)	97.7	97.3	96.9
EPS Gr. (%)	10.0	-0.5	-0.4
BV/Sh. (INR)	722.7	774.9	824.5

Ratios

Net D:E	1.3	1.2	1.0
RoE (%)	14.0	13.0	12.1
RoCE (%)	9.4	9.0	8.7
Payout (%)	20.5	46.3	48.8

Valuations

P/E (x)	7.0	7.0	7.1
P/BV (x)	0.9	0.9	0.8
EV/EBITDA(x)	6.0	6.3	6.0
Div. Yield (%)	2.9	6.6	6.9

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	49.9	49.9	49.9
DII	25.6	23.8	23.3
FII	16.1	17.9	17.8
Others	8.4	8.4	9.0
FII Includes depository receipts			

CMP: INR684 TP: INR873 (+28%)
Buy
S/A improves as demand recovers
Dhariwal, DF performances continue to improve

- CESC's 3Q results highlight volume recovery in the S/A business. Volumes in S/A were just 1% YoY lower (v/s 1H: -21% YoY). S/A PAT was up 3% YoY. Consol. PAT, on the other hand, grew 21% YoY, partly led by profit at Dhariwal and improved performance at Crescent & Surya.
- Performances at Dhariwal and distribution franchises (DFs) would continue to improve. Furthermore, the co. has declared an interim dividend of INR45/sh, highlighting the co.'s willingness to return excess cash. Despite factoring in the tightening of norms at Haldia and S/A, the stock trades attractively at 7x FY22 P/E. Maintain Buy, with TP of INR873/sh.

S/A profitability improves; dividend of INR45/sh declared

- S/A PAT rose 3% YoY to INR1.8b (broadly in line with our estimate of INR1.7b). This was largely on account of just 1% YoY decline in sales volumes at 2.6BU. Consolidated PAT, though, was up 21% YoY to INR3.2b in the quarter, led by improved performances at Dhariwal and Crescent & Surya.
- CESC has further declared an interim dividend of INR45/sh, indicating payout ratios of ~50% (v/s 20–25% payout historically), significantly higher than our est. of INR23/sh for FY21. This is a positive surprise and highlights the co.'s willingness to return excess cash to shareholders. As per our interaction with the co., receivables have declined to ~INR28b from INR33b at the end of 1H. Further recovery is expected in 4Q.
- CESC approved a proposal to consolidate all its distribution businesses (except Kolkata) into a new wholly owned subsidiary. The co. further indicated plans to increase its holding in NPCL to 72.7% from the current 49.6%.

New PPA, coal cess pass-through aids Dhariwal

- Dhariwal reported profit of INR280m (v/s loss of ~INR150m in 3QFY20) on account of a new PPA signing and the pass-through of higher coal cess in tariff. Dhariwal had signed a 185MW PPA with Maharashtra in 3QFY20, which had been extended up to Jan '21.
- Profits of Crescent & Surya rose to INR60m in 3QFY21 v/s loss of INR180m in 3QFY20. The previous year was impacted by equipment-related issues.
- DFs in Rajasthan reported profit of INR210m in 3QFY21 v/s profit of INR270m in 3QFY20. The co.'s recently acquired Malegaon DF reported loss of INR140m in 3QFY21.
- Profits of Haldia improved to INR900m in 3QFY21 v/s INR830m in 3QFY20 on account of O&M savings.

Strong FCF generation; maintain Buy

- Subdued power demand has impacted the profitability of CESC's businesses in the near term. However, the medium-term story remains intact. Dhariwal has turned profitable, and the performances of DFs should continue to improve as the co. gains a better understanding of the circles and leverages from its experience in Kolkata.

- CESC's existing Distribution business is high RoE and delivers steady growth. Generation assets have healthy FCF. The stock trades attractively at ~7x FY22E P/E, even as earnings visibility at Dhariwal improves, despite factoring in the tightening of norms at Haldia and S/A.
- Untied generation capacity and 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 INR873/sh.

Quarterly performance (standalone) – INR m

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			3QE	(%)
Sales	23,590	22,460	16,480	15,830	15,850	19,890	16,590	22,637	78,359	74,967	16,007	4
EBITDA	4,420	4,630	2,770	2,510	2,280	3,380	2,990	10,324	14,328	18,974	4,101	-27
Change (%)	-10.9	-9.4	37.1	67.3	-48.4	-27.0	7.9	311.3	5.5	32.4	48.1	
As of % Sales	18.7	20.6	16.8	15.9	14.4	17.0	18.0	45.6	18.3	25.3	25.6	
Depreciation	1,090	1,080	1,100	1,210	1,170	1,130	1,160	1,223	4,477	4,683	1,151	1
Interest	1,300	1,270	1,170	1,700	1,360	1,210	1,170	1,608	5,442	5,348	1,150	2
Other Income	230	450	290	490	340	140	280	584	1,459	1,344	290	-4
Regulatory (inc)/exp	-500	-480	-1,350	-2,970	-1,450	-810	-1,140	3,400	-5,319	0	0	
PBT	2,760	3,210	2,140	3,060	1,540	1,990	2,080	4,677	11,186	10,287	2,091	-1
Tax	590	460	380	560	200	-290	260	1,682	2,009	1,852	376	
Effective Tax Rate (%)	21.4	14.3	17.8	18.3	13.0	-14.6	12.5	36.0	18.0	18.0	18.0	
Reported PAT	2,170	2,750	1,760	2,500	1,340	2,280	1,820	2,995	9,178	8,435	1,715	6
Adjusted PAT	2,170	2,750	1,760	2,500	1,340	2,280	1,820	2,995	9,178	8,435	1,715	6
Change (%)	17.9	1.5	1.7	-19.1	-38.2	-17.1	3.4	19.8	-2.0	-8.1	-2.6	

Source: Company, MOFSL

Exhibit 1: Standalone – operating metrics

		1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Units sold	MU	3,057	2,931	2,188	2,107	2,118	2,603	2,157
change YoY	%	7.6	2.0	3.5	-8.0	-30.7	-11.2	-1.4
Realization	INR/kWh	7.7	7.7	7.5	7.5	7.5	7.6	7.7
T&D loss	%	9.0	9.0	9.0	8.5	8.5	9.0	9.0
Gross generation	MU	1,718	1,713	1,224	1,483	1,329	1,540	1,209
change YoY	%	0.5	-1.1	-10.3	-0.7	-22.6	-10.1	-1.2
Generation fuel cost	INR/kWh	2.7	2.7	2.4	2.3	2.5	2.5	2.2
Power purchase	MU	1,774	1,657	1,267	933	1,091	1,465	1,267
Power purchase cost	INR/kWh	5.0	5.1	5.3	6.0	5.7	5.2	5.3

Source: Company, MOFSL

Exhibit 2: Consolidated PAT breakup – INR m

INR m	3QFY20	3QFY21
Standalone	1,760	1,820
Haldia	830	900
Dhariwal	-150	280
Crescent & Surya	-180	60
Rajasthan DFs	270	210
Malegaon		-140
Noida	140	120
Others	-40	30
Minority	40	-40
Consolidated PAT	2,670	3,240

Source: Company, MOFSL

Valuation and view

- Subdued power demand, with the onset of COVID, had impacted volumes in the Distribution and Generation businesses. Accordingly, profitability was impacted amid lower efficiency gains and the lack of new tariff order approvals.
- However, as volumes recover, performance in S/A is improving. Dhariwal has turned profitable, and the performances of DFs should continue to improve as the co. 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 is high RoE and delivers steady growth.
- Despite factoring in the tightening of norms at Haldia and S/A, the stock trades attractively at ~7x FY22E P/E. Untied generation capacity and 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 INR873/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	106,588	110,764	115,106
Change (%)	9.6	-31.0	22.9	3.8	3.3	-3.2	3.9	3.9
EBITDA	29,792	27,845	29,991	33,867	35,355	34,124	33,471	34,249
% of Net Sales	24.6	33.3	29.2	31.8	32.1	32.0	30.2	29.8
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	26,040	25,211	25,322
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	1,532	1,658	1,780
EO expense	40	0	0	0	0	0	0	0
PBT after EO	9,781	9,273	11,967	15,025	15,992	15,227	15,332	16,443
Tax	3,130	3,210	3,562	3,737	3,627	2,670	2,870	3,092
Rate (%)	32.0	34.6	29.8	24.9	22.7	17.5	18.7	18.8
Reported PAT	6,651	6,063	8,405	11,288	12,365	12,557	12,462	13,351
Minority and Associates	-666	-710	-129	552	655	400	441	485
Adjusted PAT	6,024	5,354	8,276	11,840	13,021	12,957	12,902	13,836
Change (%)	203.5	-11.1	54.6	43.1	10.0	-0.5	-0.4	7.2

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	101,904	108,512	115,364
Net Worth	106,037	106,227	84,202	89,738	96,274	103,236	109,844	116,696
Minority Interest	10,920	12,101	694	821	858	920	978	1,032
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	275,848	273,980	271,105
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	7,165	7,664	8,200
Curr. Assets	93,781	104,322	82,499	89,859	99,685	98,732	97,813	96,537
Inventories	6,967	8,454	5,826	7,005	7,184	6,553	6,672	6,882
Account Receivables	14,132	15,596	15,374	17,389	18,818	21,844	17,474	17,982
Cash and Bank Balance	17,894	22,931	17,003	15,437	18,060	9,913	13,243	11,249
Others	54,788	57,340	44,296	50,029	55,623	60,424	60,424	60,424
Curr. Liability & Prov.	63,993	65,533	62,791	60,000	66,627	66,968	67,831	68,718
Account Payables	5,951	7,890	6,907	6,778	6,568	6,477	6,838	7,121
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	31,764	29,982	27,819
Appl. of Funds	303,939	313,194	267,083	274,684	277,094	275,848	273,980	271,105

Financials and valuations

Ratios

	2016	2017	2018	2019	2020	2021E	2022E	2023E
Valuation (x)								
P/E	15.1	17.0	11.0	7.7	7.0	7.0	7.1	6.6
Cash P/E	6.7	7.3	5.8	4.7	4.4	4.3	4.3	4.0
P/BV	0.9	0.9	1.1	1.0	0.9	0.9	0.8	0.8
EV/EBITDA	7.8	8.5	7.4	6.5	6.0	6.3	6.0	5.7
Dividend Yield (%)	1.5	1.5	1.8	2.6	2.9	6.6	6.9	7.3
Return Ratios (%)								
RoE	7.2	5.0	8.7	13.6	14.0	13.0	12.1	12.2
RoCE (post-tax)	8.4	6.4	7.4	9.1	9.4	9.0	8.7	8.8
RoIC (post-tax)	7.1	5.0	6.0	8.0	8.5	8.5	8.1	8.2
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.3	0.4	0.5	0.5	0.5	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	75	58	57
Leverage Ratio (x)								
Net Debt/EBITDA	4.4	4.8	4.3	3.8	3.4	3.6	3.3	3.0
Debt/Equity	1.1	1.1	1.5	1.4	1.3	1.2	1.0	0.9

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	34,124	33,471	34,249
WC	-5,805	-918	-6,336	-9,779	1,580	-6,853	5,112	170
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	-2,670	-2,870	-3,092
CF from Op. Activity	24,804	26,552	24,321	22,939	30,033	24,601	35,712	31,327
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	1,532	1,658	1,780
CF from Inv. Activity	-11,554	-13,915	-15,760	-5,702	-1,757	-6,138	-6,016	-5,899
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	-5,995	-6,295	-6,609
Others	-5	256	365	0	86	0	0	0
CF from Fin. Activity	-11,809	-7,599	-14,490	-17,373	-21,299	-26,610	-26,365	-27,049
(Inc)/Dec in Cash	1,441	5,037	-5,928	-135	6,977	-8,147	3,330	-1,621
Opening balance	16,453	17,894	22,931	17,003	15,437	18,060	9,913	13,243
Closing balance	17,894	22,931	17,003	16,868	22,414	9,913	13,243	11,621

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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