

CESC

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Stable quarter

Result Highlights

- Standalone PAT for the quarter stood at Rs1.84bn in Q3 - up 1% YoY and in line with our estimate. Flat earnings were largely on account of the delay in Tariff order for the Kolkata license area. We believe that once the Tariff order comes, there will be decent growth in standalone earnings.
- CESC also reported stable earnings for the majority of its subsidiaries. Dhariwal Infrastructure posted strong earnings – 9M PAT of Rs1,090mn vs. Rs750mn in 9MFY21; Q3FY22 PAT was Rs500mn. This was largely due to the sale of power in the short term due to high prices at the power exchange. Dhariwal participated with a 210MW bid in a medium-term power purchase tender. If it wins the bid, tied power at Dhariwal will increase.
- We maintain Buy with a Sept'22 TP of Rs101. CESC remains a 5% dividend yield stock with mid-single digit earnings growth.
- Stable standalone earnings:** Given that the Tariff order for the Kolkata license area has still not come, standalone earnings were expected to be largely flat over last year. Standalone PAT for the quarter stood at Rs1.84bn – up by 1% YoY.
- Stable performance by subsidiaries:** Haldia Energy reported 9M PAT of Rs2.73bn vs. Rs2.85bn a year ago. Crescent Power's PAT stood at Rs240mn vs. Rs250mn. Noida Power reported a 9M PAT of Rs790mn vs. Rs700mn in 9MFY21. Loss at Malegaon came down to Rs410mn from a loss of Rs540mn. While the performance of the Malegaon circle was satisfactory, Rajasthan discom performance was not. Rajasthan circles reported a higher loss of Rs190mn vs. a loss of Rs110mn. Overall, consolidated PAT for 9M stood at Rs9.6bn vs. Rs9.34bn in 9MFY21.
- Strong earnings by Dhariwal Infrastructure:** 9MFY22 PAT for Dhariwal stood at Rs1,090mn vs. Rs750mn in 9MFY21 due to high short-term power prices at the power exchange in the current quarter. Q3FY22 PAT stood at Rs500mn.
- Dhariwal Infrastructure has participated with a 210MW bid in a medium-term power purchase tender floated by the Railway Energy Management Company Limited for a period of three years.
- Valuation and outlook:** The board has declared an interim dividend of Rs4.5/share. Improvement/expansion of the distribution business and the performance of the Dhariwal plant remain the key growth drivers for CESC. The Kolkata license area tariff order is expected in the near term. The dividend yield stands at ~5%. We maintain our TP of Rs101 (Sep'22E). Retain Buy.

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,21,590	1,16,390	1,23,061	1,27,990	1,33,245
EBITDA	37,743	36,100	37,896	38,788	39,455
EBITDA Margin (%)	31.0	31.0	30.8	30.3	29.6
APAT	12,673	13,310	14,017	14,514	15,069
EPS (Rs)	9.5	10.0	10.5	10.9	11.3
EPS (% chg)	7.0	5.0	5.3	3.5	3.8
ROE (%)	13.8	13.8	13.6	13.1	12.6
P/E (x)	9.7	9.2	8.8	8.5	8.2
EV/EBITDA (x)	6.0	6.3	5.7	5.4	5.1
P/BV (x)	1.3	1.2	1.2	1.1	1.0

Source: Company, Emkay Research

CMP	Target Price
Rs 92 as of (January 13, 2022)	Rs 101 (■) 12 months
Rating	Upside
BUY (■)	9.8 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/
Target Price change (%)	0.0
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	10.5	10.9
Consensus	10.8	11.7
Mean Consensus TP (12M)	Rs 108	

Stock Details

Bloomberg Code	CESC IN
Face Value (Rs)	1
Shares outstanding (mn)	1,326
52 Week H/L	102 / 29
M Cap (Rs bn/USD bn)	122 / 1.66
Daily Avg Volume (nos.)	39,16,949
Daily Avg Turnover (US\$ mn)	4.9

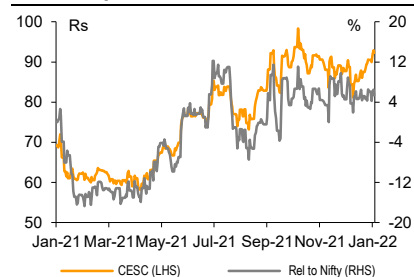
Shareholding Pattern Sep '21

Promoters	52.1%
FIIIs	13.0%
DIIIs	23.0%
Public and Others	12.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	1	8	35
Rel. to Nifty	(1)	-	(6)	8

Relative price chart



Source: Bloomberg

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Exhibit 1: Quarterly Result Tables (\$)

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	YoY (%)	QoQ (%)
Revenues	16,590	16,880	19,310	20,910	16,620	0%	-21%
Fuel Cost	9,360	9,370	11,080	11,940	10,310	10%	-14%
as % of sales	56.4	55.5	57.4	57.1	62.0	561 bps	493 bps
Employee Cost	2,120	1,940	2,450	2,330	1,980	-7%	-15%
as % of sales	12.8	11.5	12.7	11.1	11.9	-87 bps	77 bps
Other expenditure	2,120	2,470	2,670	2,450	2,210	4%	-10%
as % of sales	12.8	14.6	13.8	11.7	13.3	52 bps	158 bps
Total expenditure	13,600	13,780	16,200	16,720	14,500	7%	-13%
EBITDA	2,990	3,100	3,110	4,190	2,120	-29%	-49%
Depreciation	1,160	1,170	1,180	1,160	1,170	1%	1%
EBIT	1,830	1,930	1,930	3,030	950	-48%	-69%
Other Income	1,420	2,210	1,090	1,270	2,590	82%	104%
Interest	1,170	1,280	1,270	1,240	1,230	5%	-1%
PBT	2,080	2,860	1,750	3,060	2,310	11%	-25%
Taxes	260	160	370	710	470	81%	-34%
PAT	1,820	2,700	1,380	2,350	1,840	1%	-22%
Share in JV/ Associates	-	-	-	-	-		
Minority interest	-	-	-	-	-		
Adjusted PAT	1,820	2,700	1,380	2,350	1,840	1%	-22%
Extra ord / Exceptional item							
Reported PAT	1,820	2,700	1,380	2,350	1,840	1%	-22%
Adjusted EPS	1.37	2.03	1.04	1.76	1.38	1%	-22%

Source: Company, Emkay Research

Exhibit 2: Valuation – SoTP (Sep'22E)

	Value (Rs mn)	Multiple	Method	Stake	Target Value (Rs mn)	Value / Share
Distribution						
Kolkata Reg Equity	34,409	2.0	(RoE-g)/(CoE-g)	100%	67,358	51
Noida	6,370	2.3	(RoE-g)/(CoE-g)	73.0%	10,695	8
Distribution Franchisee	4,115	1.0	Equity Investment	100.0%	4,115	3
Chandigarh License	1,800	1.5	Equity Investment	100.0%	2,700	2
Total					84,868	64
Generation						
Kolkata Reg Equity	14,354	1.7	RoE/Ke	100%	23,694	18
Haldia Reg Equity	10,500	2.0	RoE/Ke	100%	21,000	16
Dhariwal/Chandrapur	4,699	1.0	NPV	100%	4,699	4
Crescent Power	118	8.0	8x PAT	68%	641	0
Total					50,034	38
SoTP - Sep'22					134,901	101

Source: Emkay Research

Exhibit 3: Subsidiaries/Consolidated

	9MFY22	9MFY21	YoY (%)
Haldia Energy			
Revenue (Rs mn)	17,700	17,110	3%
PAT (Rs mn)	2,730	2,850	-4%
Noida Power			
Revenue (Rs mn)	15,000	12,640	19%
PAT (Rs mn)	790	700	13%
Crescent Power & Surya Vidyut			
Revenue (Rs mn)	1870	1,950	-4%
PAT (Rs mn)	240	250	-4%
Dhariwal			
Revenue (Rs mn)	11,200	10,850	3%
PAT (Rs mn)	1,090	750	45%
Rajasthan DF			
Revenue (Rs mn)	12,450	11,730	6%
PAT (Rs mn)	(190)	(110)	NM
Malegaon DF			
Revenue (Rs mn)	3,660	3,000	22%
PAT (Rs mn)	(410)	(540)	NM
Consolidated			
Revenue (Rs mn)	97,280	88,710	10%
PAT (Rs mn)	9,600	9,340	3%

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,21,590	1,16,390	1,23,061	1,27,990	1,33,245
Expenditure	83,848	80,290	85,165	89,203	93,790
EBITDA	37,743	36,100	37,896	38,788	39,455
Depreciation	8,480	8,670	8,986	9,038	9,268
EBIT	29,263	27,430	28,910	29,749	30,187
Other Income	2,190	2,350	1,514	1,544	1,564
Interest expenses	13,780	12,260	12,019	12,211	11,926
PBT	17,673	17,520	18,405	19,082	19,824
Tax	4,580	3,890	4,049	4,198	4,361
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(420)	(320)	(338)	(370)	(393)
Reported Net Income	12,673	13,310	14,017	14,514	15,069
Adjusted PAT	12,673	13,310	14,017	14,514	15,069

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	1,332	1,332	1,332	1,332	1,332
Reserves & surplus	92,780	97,400	1,05,422	1,13,925	1,22,476
Net worth	94,112	98,732	1,06,755	1,15,257	1,23,808
Minority Interest	3,650	3,970	4,308	4,678	5,072
Loan Funds	1,21,816	1,24,650	1,21,399	1,18,393	1,18,303
Net deferred tax liability	40,420	41,590	41,590	41,590	41,590
Total Liabilities	2,59,998	2,68,942	2,74,052	2,79,918	2,88,772
Net block	2,45,050	2,39,710	2,38,529	2,37,646	2,40,698
Investment	1,800	3,090	3,090	3,090	3,090
Current Assets	86,302	93,502	1,02,405	1,08,589	1,17,221
Cash & bank balance	19,790	18,580	25,910	30,863	38,194
Other Current Assets	38,302	42,522	42,648	42,777	42,909
Current liabilities & Provision	77,174	70,960	73,572	73,006	75,836
Net current assets	9,128	22,542	28,833	35,582	41,385
Misc. exp	0	0	0	0	0
Total Assets	2,59,998	2,68,942	2,74,052	2,79,918	2,88,772

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	15,483	15,170	16,891	17,538	18,260
Other Non-Cash items	0	0	0	0	0
Chg in working cap	7,503	(13,454)	1,039	(1,796)	1,529
Operating Cashflow	34,090	28,180	34,887	32,793	36,622
Capital expenditure	(9,240)	(6,800)	(7,805)	(8,155)	(12,320)
Free Cash Flow	24,851	21,380	27,082	24,638	24,302
Investments	10,615	(1,290)	0	0	0
Other Investing Cash Flow	(8,225)	(9,160)	0	0	0
Investing Cashflow	(4,660)	(14,900)	(6,291)	(6,611)	(10,756)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(4,307)	2,834	(3,251)	(3,006)	(90)
Dividend paid (incl tax)	(3,620)	(5,940)	(5,995)	(6,012)	(6,518)
Other Financing Cash Flow	1,760	876	(1)	1	0
Financing Cashflow	(19,947)	(14,490)	(21,266)	(21,228)	(18,535)
Net chg in cash	9,483	(1,210)	7,330	4,953	7,331
Opening cash position	10,307	19,790	18,580	25,910	30,863
Closing cash position	19,790	18,580	25,910	30,863	38,194

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	31.0	31.0	30.8	30.3	29.6
EBIT Margin	24.1	23.6	23.5	23.2	22.7
Effective Tax Rate	25.9	22.2	22.0	22.0	22.0
Net Margin	10.8	11.7	11.7	11.6	11.6
ROCE	12.2	11.3	11.2	11.3	11.2
ROE	13.8	13.8	13.6	13.1	12.6
RoIC	12.6	11.5	11.9	12.3	12.4

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	9.5	10.0	10.5	10.9	11.3
CEPS	15.9	16.5	17.3	17.7	18.3
BVPS	70.6	74.1	80.1	86.5	92.9
DPS	2.2	4.5	4.5	4.5	4.9

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	9.7	9.2	8.8	8.5	8.2
P/CEPS	5.8	5.6	5.3	5.2	5.0
P/BV	1.3	1.2	1.2	1.1	1.0
EV / Sales	1.8	2.0	1.8	1.6	1.5
EV / EBITDA	6.0	6.3	5.7	5.4	5.1
Dividend Yield (%)	2.4	4.8	4.9	4.9	5.3

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	1.1	1.1	0.9	0.7	0.6
Net Debt/EBIDTA	2.7	2.9	2.5	2.2	2.0
Working Cap Cycle (days)	(32.0)	12.4	8.7	13.5	8.7

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	14.0	(4.3)	5.7	4.0	4.1
EBITDA	1.8	(4.4)	5.0	2.4	1.7
EBIT	(0.6)	(6.3)	5.4	2.9	1.5
PAT	7.0	5.0	5.3	3.5	3.8

Quarterly (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Revenue	16,590	16,880	19,310	20,910	16,620
EBITDA	2,990	3,100	3,110	4,190	2,120
EBITDA Margin (%)	18.0	18.4	16.1	20.0	12.8
PAT	1,820	2,700	1,380	2,350	1,840
EPS (Rs)	1.4	2.0	1.0	1.8	1.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	49.9	49.9	49.9	49.9	52.1
FII's	16.1	14.9	-	13.4	13.0
DII's	25.5	25.7	23.8	23.6	23.0
Public and Others	8.4	9.5	26.3	13.1	12.0

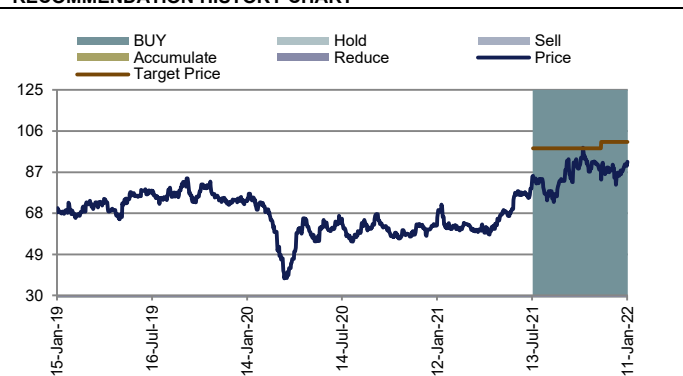
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-Nov-21	84	101	12m	Buy	Abhineet Anand
14-Jul-21	85	98	12m	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 14 Jan 2022 01:10:58 (SGT)

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