Company Update

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CESC

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Attractive valuations

CMP	Target Price
Rs 74.5 as of (3/21/2022)	Rs 101 (■) 12 months
Rating	**Upside**
BUY (■)	35.6 %

- CESC has corrected ~12% in the last one and a half months since the FY19-20 tariff order for the Kolkata license area came out. Investors are mainly concerned about the non-consideration of interest on short-term borrowings and working capital in the present tariff, though WBERC has clearly mentioned submitting details in APR. WBERC will examine the necessity of such loans on the tariff gap during the year and will decide accordingly. We believe that it will be eventually passed on to consumers. It is important to note that capex for FY19-20 has been approved and that the T&D loss has been kept unchanged at 14.3%. The actual T&D loss for FY19-20 stood at ~9%, and hence CESC will benefit. We believe that the Kolkata license area will remain a steady cash cow for the company.
- Stocks of pure utilities sector like NTPC and Power Grid have remained firm in the recent past despite a significant increase in commodity prices, as they are not affected by it. Hence, we believe CESC's standalone earnings will also not be impacted by it.
- The profitability of Dhariwal Infrastructure is expected to improve further. Dhariwal's 9MFY22 PAT 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 participated in a 210MW bid in a medium-term power purchase tender floated by the Railway Energy Management Company Limited for a period of three years, and it has emerged at L1 in the bid. While Unit-2 of the plant has been fully tied up under long term PPA with NPCL(170MW) and TANGENDO (100MW), if they are able to tie up 210MW under medium term for Unit-1, this plant will generate good cash flow. With this, profitability of this IPP can increase further in FY23 to ~Rs1.8bn.
- Distribution remains the growth driver for CESC. In the last few years, it has won four distribution-based franchises – three in Rajasthan (Kota, Bharatpur and Bikaner in FY17/18) and one in Malegaon, Maharashtra. The loss at Malegaon has come down to Rs410mn (9MFY22) from Rs540mn (9MFY21). While the performance of the Malegaon circle was satisfactory, Rajasthan discoms' performance has been impacted by Kota circle. Losses from Rajasthan circles have widened to Rs190mn in 9MFY22 from Rs110mn in 9MFY21. Of these, Bharatpur and Bikaner have already turned positive. CESC, through its subsidiary, has emerged as the highest bidder to acquire a 100% stake in the power distribution company of Chandigarh.
- **Valuation:** We maintain our positive view on CESC with a Sept'22 TP of Rs101 (unchanged). At CMP, the stock offers a 6% dividend yield and mid-single digit earnings growth. We believe CESC remains one of the key beneficiaries of the distribution reforms anticipated in the country in the coming years. With ~13% RoE and PB of 0.8x, it remains attractively priced. Maintain 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)	7.7	7.4	7.0	6.8	6.5
EV/EBITDA (x)	5.3	5.6	5.1	4.7	4.5
P/BV (x)	1.0	1.0	0.9	0.9	0.8

Source: Company, Emkay Research

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

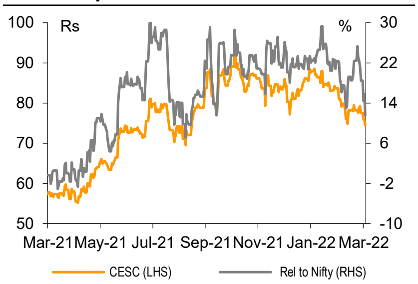
Emkay vs Consensus		
	EPS Estimates	
	FY22E	FY23E
Emkay	10.5	10.9
Consensus	10.5	11.7
Mean Consensus TP (12M)		Rs 109

Stock Details	
Bloomberg Code	CESC IN
Face Value (Rs)	1
Shares outstanding (mn)	1,326
52 Week H/L	102 / 58
M Cap (Rs bn/USD bn)	98 / 1.29
Daily Avg Volume (nos.)	28,45,119
Daily Avg Turnover (US$ mn)	3.2

Shareholding Pattern Dec '21	
Promoters	52.1%
FIIs	13.5%
DIIs	22.1%
Public and Others	12.4%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	(7)	(13)	(20)	20
Rel. to Nifty	(7)	(14)	(19)	2

Relative price chart



Source: Bloomberg

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Exhibit 1: SoTP

	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 - Sept'22					**134,901**	**101**

Source: 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

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	7.7	7.4	7.0	6.8	6.5
P/CEPS	5.8	5.6	5.3	5.2	5.0
P/BV	1.0	1.0	0.9	0.9	0.8
EV / Sales	1.6	1.7	1.6	1.4	1.3
EV / EBITDA	5.3	5.6	5.1	4.7	4.5
Dividend Yield (%)	3.0	6.1	6.1	6.1	6.6

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 (%)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	49.9	49.9	49.9	52.1	52.1
FIIs	14.9	-	13.4	13.0	13.5
DIIs	25.7	23.8	23.6	23.0	22.1
Public and Others	9.5	26.3	13.1	12.0	12.4

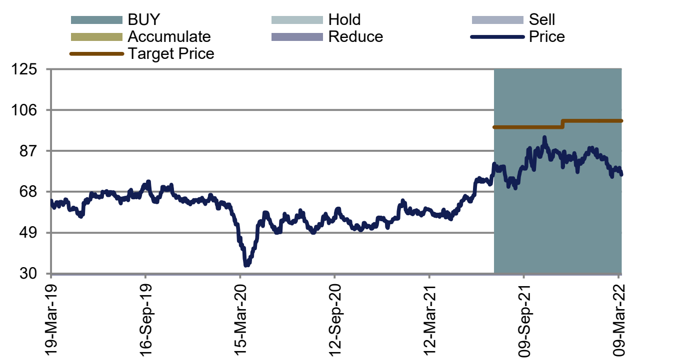
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Jan-22	88	101	12m	Buy	Abhineet Anand
22-Nov-21	79	101	12m	Buy	Abhineet Anand
14-Jul-21	81	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%

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