

CESC

Refer to important disclosures at the end of this report

Growth, the key concern

CMP	Target Price
Rs 76 as of (November 14, 2022)	Rs 101 (▼) 12 months
Rating	Upside
BUY (■)	32.6 %

- CESC reported standalone PAT of Rs2.43bn for the quarter, up 3.4% YoY and in line with our estimates. Consolidated PAT came in at Rs3.2bn, down from Rs3.4bn YoY due to lower profit at Haldia Energy. Dhariwal Infrastructure has reported 1HFY23 PAT at Rs1.15bn vs Rs590mn YoY, while Noida PAT came in at Rs750mn vs Rs520mn during the same period.
- Performance of Distribution segments of Rajasthan and Malegaon was not enthrusting. Malegaon reported loss of Rs480mn vs loss of Rs290mn due to lower demand, as the circle has a high proportion of textile consumers. While revenue in the Rajasthan circle improved, but there was no major change in the loss levels.
- We maintain BUY, with Sep-23 TP of Rs101/share (from Rs108), as we presently keep value of Distribution franchisees (DFs) and the Chandigarh area as negligible. Once the DFs loss trajectory sees improvement, their value would become more relevant. Our FY23E/FY24E EPS has been cut by 6-7%, to factor-in the slower improvement in DFs.

- **Standalone performance steady, await tariff hike:** Standalone PAT grew by 3.4% for 2QFY23. Generation grew by ~1.5%, while provisional T&D stood at <8%. As there is no tariff hike in the circle, profit growth remains marginal.
- **Dhariwal and Noida doing well; Haldia profits normalizing:** Performance of Dhariwal Infrastructure has improved – 1HFY23 PAT of Rs1.15bn vs Rs590mn YoY. Similarly, demand in the Noida circle has increased, leading to 1HFY23 PAT of Rs750mn vs Rs520mn YoY.
- **DFs remain key concern area:** Rajasthan DFs, despite having completed 4/5 years, have not been able to see break-even because of the Kota circle. Rajasthan DFs made 1HFY23 loss of Rs180mn vs Rs210mn loss YoY. Malegaon losses widened to Rs480mn during 1HFY23 vs loss of Rs290mn YoY.
- **Bear case valuation:** For our bear-case valuation, we have assumed no expansion (growth) in the Kolkata license area, thus capping the valuation of this distribution circle. In our Bear case, we arrive at SoTP-based value of Rs70/share.
- **Valuation, outlook and risks:** We have cut our FY23E/FY24E EPS by 6-7%, to factor-in the slower improvement in performance of distribution franchisees. In Rajasthan, while sales have seen a good increase, loss levels have not yet narrowed down. Further, due to high textile exposure, Malegaon losses have further increased for 1H. We maintain BUY, with Sep-23 TP of Rs101. Key triggers include standalone tariff increase and performance of DFs. Risks include tepid demand in distribution circles.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Eng. & Cap. Goods, Infra, Power \(Page 6\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,16,315	1,25,439	1,29,731	1,34,498	1,40,226
EBITDA	35,897	36,538	36,394	36,801	38,169
EBITDA Margin (%)	30.9	29.1	28.1	27.4	27.2
APAT	13,309	13,581	14,051	14,648	15,960
EPS (Rs)	10.0	10.2	10.5	11.0	12.0
EPS (% chg)	5.0	2.0	3.5	4.3	9.0
ROE (%)	13.8	13.4	13.0	12.6	12.8
P/E (x)	7.6	7.5	7.2	6.9	6.4
EV/EBITDA (x)	6.2	5.8	5.6	5.3	4.8
P/BV (x)	1.0	1.0	0.9	0.8	0.8

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY23E/FY24E (%)	(6.9)/(5.9)
Target Price change (%)	(6.5)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	FY23E	FY24E
Emkay	10.5	11.0
Consensus	11.6	12.4
Mean Consensus TP (12M)	Rs 111	

Stock Details

Bloomberg Code	CESC IN
Face Value (Rs)	1
Shares outstanding (mn)	1,326
52 Week H/L	95 / 68
M Cap (Rs bn/USD bn)	101 / 1.24
Daily Avg Volume (nos.)	27,04,035
Daily Avg Turnover (USD\$ mn)	2.7

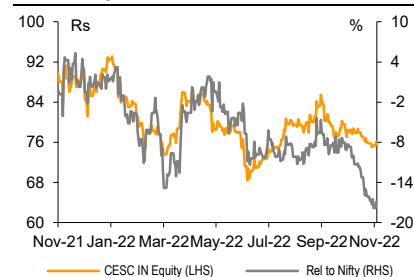
Shareholding Pattern Sep '22

Promoters	52.1%
FIIIs	13.3%
DIIIs	22.1%
Public and Others	12.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(4)	(3)	(16)
Rel. to Nifty	(9)	(7)	(17)	(17)

Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Quarterly Results

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)
Revenues	20,910	16,620	16,100	23,470	22,630	8%	-4%
Fuel Cost	11,940	10,310	9,610	14,990	14,200	19%	-5%
as % of sales	57.1	62.0	59.7	63.9	62.7	565 bps	-112 bps
Employee Cost	2,330	1,980	2,100	2,310	2,760	18%	19%
as % of sales	11.1	11.9	13.0	9.8	12.2	105 bps	235 bps
Other expenditure	2,450	2,210	2,630	2,230	2,470	1%	11%
as % of sales	11.7	13.3	16.3	9.5	10.9	-80 bps	141 bps
Total expenditure	16,720	14,500	14,340	19,530	19,430	16%	-1%
EBITDA	4,190	2,120	1,760	3,940	3,200	-24%	-19%
Depreciation	1,160	1,170	1,200	1,200	1,190	3%	-1%
EBIT	3,030	950	560	2,740	2,010	-34%	-27%
Other Income	320	580	810	200	480	50%	140%
Interest	1,240	1,230	1,300	1,340	1,480	19%	10%
PBT	2,110	300	70	1,600	1,010	-52%	-37%
Taxes	710	470	730	350	680	-4%	94%
PAT	1,400	(170)	(660)	1,250	330	-76%	-74%
Share in JV/ Associates	0	0	0	0	0		
Minority interest	0	0	0	0	0		
Adjusted PAT	1,400	(170)	(660)	1,250	330	-76%	-74%
Extra ord / Exceptional item	950	2,010	3,250	130	2,100	121%	1515%
Reported PAT	2,350	1,840	2,590	1,380	2,430	3%	76%
Adjusted EPS (Rs)	1.76	1.38	1.94	1.04	1.82	3%	76%

Source: Company, Emkay Research

Exhibit 2: SoTP-based valuation

	Value (Rs mn)	Multiple (x)	Method	Stake	Target Value (Rs mn)	Base case (Rs/share)
Distribution						
Kolkata Reg Equity	35,159	1.9	(RoE-g)/(CoE-g)	100%	66,641	50
Noida	6,793	2.3	(RoE-g)/(CoE-g)	73.0%	11,405	9
Distribution Franchisee	4,115	1.0	Equity Investment	100.0%		
Chandigarh License	1,800	1.5	Equity Investment	100.0%		
Total					78,045	59
Generation						
Kolkata Reg Equity	12,354	1.7	RoE/Ke	100%	20,552	15
Haldia Reg Equity	10,500	2.0	RoE/Ke	100%	21,000	16
Dhariwal/Chandrapur	8,086	1.0	NPV	100%	8,086	6
Crescent Power	155	8.0	8x PAT	68%	841	1
Total					50,478	38
Dividend per share (Rs)						5
SoTP – Sep-23 (Rs/share)					1,28,524	101

Source: Company, Emkay Research

Exhibit 3: Change in Estimates

(Rs mn)	Old			Revised			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	1,29,731	1,35,130	1,40,845	1,29,731	1,34,498	1,40,226	-	(0.5)	(0.4)
EBITDA	37,723	38,132	38,894	36,394	36,801	38,169	(3.5)	(3.5)	(1.9)
PAT	15,087	15,575	16,302	14,051	14,648	15,960	(6.9)	(5.9)	(2.1)
EPS (Rs)	11.3	11.7	12.2	10.5	11.0	12.0	(6.9)	(5.9)	(2.1)

Source: Emkay Research, Company

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,16,315	1,25,439	1,29,731	1,34,498	1,40,226
Expenditure	80,418	88,901	93,337	97,697	1,02,057
EBITDA	35,897	36,538	36,394	36,801	38,169
Depreciation	8,667	8,847	8,904	9,074	9,246
EBIT	27,231	27,691	27,490	27,727	28,923
Other Income	2,418	2,757	3,000	3,120	3,245
Interest expenses	12,133	11,293	11,887	11,469	11,076
PBT	17,515	19,155	18,603	19,378	21,092
Tax	3,887	5,114	4,093	4,263	4,640
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(319)	(460)	(460)	(467)	(492)
Reported Net Income	13,309	13,581	14,051	14,648	15,960
Adjusted PAT	13,309	13,581	14,051	14,648	15,960

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	1,332	1,332	1,332	1,332	1,332
Reserves & surplus	97,396	1,02,632	1,10,384	1,18,914	1,28,056
Net worth	98,728	1,03,964	1,11,716	1,20,246	1,29,388
Minority Interest	3,963	4,342	4,802	5,269	5,761
Loan Funds	1,40,415	1,47,389	1,44,556	1,41,838	1,41,838
Net deferred tax liability	41,583	42,875	42,875	42,875	42,875
Total Liabilities	2,84,689	2,98,570	3,03,949	3,10,228	3,19,862
Net block	2,39,710	2,30,187	2,29,439	2,28,685	2,25,390
Investment	3,712	5,225	5,225	5,225	5,225
Current Assets	93,492	1,16,814	1,23,611	1,30,461	1,44,486
Cash & bank balance	18,579	32,495	38,286	45,154	57,641
Other Current Assets	42,758	51,418	51,575	51,735	51,899
Current liabilities & Provision	55,197	56,021	56,691	57,617	58,433
Net current assets	38,295	60,793	66,920	72,844	86,053
Misc. exp	0	0	0	0	0
Total Assets	2,84,689	2,98,570	3,03,949	3,10,228	3,19,862

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	15,098	16,398	15,603	16,258	17,848
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(29,214)	(7,290)	(336)	(164)	(442)
Operating Cashflow	12,212	23,766	31,615	32,011	33,102
Capital expenditure	(6,792)	986	(8,155)	(8,320)	(5,951)
Free Cash Flow	5,420	24,753	23,460	23,691	27,151
Investments	(1,912)	(1,513)	0	0	0
Other Investing Cash Flow	(9,160)	0	0	0	0
Investing Cashflow	(15,446)	2,231	(5,155)	(5,200)	(2,706)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	18,599	6,974	(2,833)	(2,718)	0
Dividend paid (incl tax)	(5,940)	(6,026)	(6,299)	(6,118)	(6,818)
Other Financing Cash Flow	1,498	(1,736)	350	361	(15)
Financing Cashflow	2,024	(12,082)	(20,669)	(19,944)	(17,908)
Net chg in cash	(1,211)	13,915	5,791	6,868	12,487
Opening cash position	19,790	18,579	32,495	38,286	45,154
Closing cash position	18,579	32,495	38,286	45,154	57,641

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	30.9	29.1	28.1	27.4	27.2
EBIT Margin	23.4	22.1	21.2	20.6	20.6
Effective Tax Rate	22.2	26.7	22.0	22.0	22.0
Net Margin	11.7	11.2	11.2	11.2	11.7
ROCE	10.9	10.4	10.1	10.0	10.2
ROE	13.8	13.4	13.0	12.6	12.8
RoIC	8.6	7.8	8.3	8.4	8.8

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	10.0	10.2	10.5	11.0	12.0
CEPS	16.5	16.8	17.2	17.8	18.9
BVPS	74.1	78.0	83.9	90.3	97.1
DPS	4.5	4.5	4.7	4.6	5.1

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	7.6	7.5	7.2	6.9	6.4
P/CEPS	4.6	4.5	4.4	4.3	4.0
P/BV	1.0	1.0	0.9	0.8	0.8
EV / Sales	1.9	1.7	1.6	1.5	1.3
EV / EBITDA	6.2	5.8	5.6	5.3	4.8
Dividend Yield (%)	5.9	5.9	6.2	6.0	6.7

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	1.2	1.1	0.9	0.8	0.6
Net Debt/EBIDTA	3.3	3.1	2.8	2.6	2.1
Working Cap Cycle (days)	61.9	82.3	80.6	78.2	76.1

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(4.3)	7.8	3.4	3.7	4.3
EBITDA	(4.9)	1.8	(0.4)	1.1	3.7
EBIT	(6.9)	1.7	(0.7)	0.9	4.3
PAT	5.0	2.0	3.5	4.3	9.0

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	20,910	16,620	16,100	23,470	22,630
EBITDA	4,190	2,120	1,760	3,940	3,200
EBITDA Margin (%)	20.0	12.8	10.9	16.8	14.1
PAT	2,350	1,840	2,590	1,380	2,430
EPS (Rs)	1.8	1.4	1.9	1.0	1.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	52.1	52.1	52.1	52.1	52.1
FIs	13.0	13.5	13.8	13.9	13.3
DIs	23.0	22.1	21.0	21.3	22.1
Public and Others	12.0	12.4	13.1	12.6	12.6

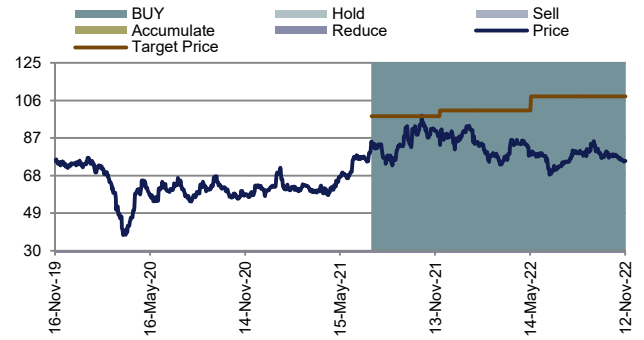
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
26-Sep-22	78	108	12m	Buy	Abhineet Anand
11-Sep-22	83	108	12m	Buy	Abhineet Anand
21-Jun-22	71	108	12m	Buy	Abhineet Anand
09-Jun-22	78	108	12m	Buy	Abhineet Anand
15-May-22	79	108	12m	Buy	Abhineet Anand
22-Feb-22	76	101	12m	Buy	Abhineet Anand
13-Jan-22	92	101	12m	Buy	Abhineet Anand
22-Nov-21	84	101	12m	Buy	Abhineet Anand
14-Jul-21	85	98	12m	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Eng. & Capital Goods, Infra, Power



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Sector

Engineering, Infra and Power

Analyst bio

Abhineet has experience of over 19 years in Engineering, Infrastructure and Power sectors as Analyst, Consultant and Engineer. Abhineet has completed his B.E. in Mechanical Engineering and PGDM in Finance from IIM Kozhikode.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Engineering & Capital Goods, Infra, Power	3.77	3.59	-5%	-18	100.00	
Action Construction Equipments	0.00	0.00	NA	0	0.00	0
HG Infra Engineering	0.00	0.09	NA	9	2.43	0
Kalpataru Power	0.00	0.24	NA	24	6.43	0
KEC International	0.00	0.18	NA	18	4.73	0
Larsen & Toubro	2.23	1.57	-30%	-66	41.76	0
CESC	0.00	0.15	NA	15	4.09	0
NHPC	0.11	0.10	-10%	-1	2.67	0
NTPC	0.75	0.75	0%	0	19.88	0
Power Grid Corporation	0.67	0.50	-25%	-17	13.33	0
Cash	0.00	0.18	NA	18	4.67	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	12-Nov-21	13-May-22	12-Aug-22	11-Oct-22	11-Nov-22
EAP - Engineering & Capital Goods, Infra, Power	100.0	144.8	115.6	116.1	113.7	124.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	140.1	115.0	114.9	114.8	122.2

*Performance measurement base date 1st April 2019

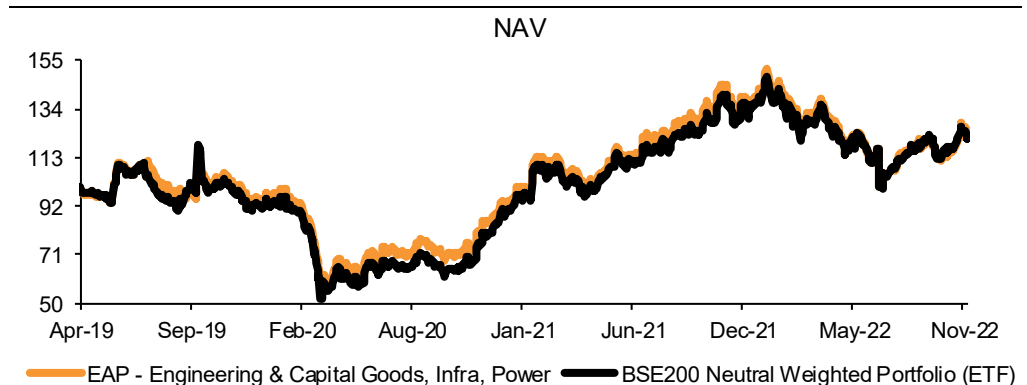
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Engineering & Capital Goods, Infra, Power	9.4%	7.1%	7.6%	-14.1%
BSE200 Neutral Weighted Portfolio (ETF)	6.4%	6.3%	6.2%	-12.8%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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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