

# CESC

## Noida continues to outperform

CESC's consolidated PAT in Q3FY23 remained largely flat at INR3.4bn due to lower profit across the Haldia project (under-recovery of O&M and fuel cost) and higher losses across the distribution franchisee (DF) segment. Dhariwal too reported a flat 2% YoY growth in PAT to INR510mn, while standalone PAT came in at INR1.9bn (+1.1% YoY). However, the Noida business reported a strong 103.7% YoY rise in PAT to INR550mn, led by a strong 15% rise in power demand and improved incentives. In the Chandigarh discom, CESC is yet to receive an order from the apex court and, hence, we have not included it in our valuation. We have maintained our earnings estimates for FY23/24 and retain our BUY rating on CESC at a SoTP-based TP of INR108. Our positive stance on CESC is also based on the grounds that the company continues to trade at an attractive valuation of 6.6x FY25P/E and 0.7x FY25 P/BV.

- Losses across Malegaon persist:** While power demand in the Kolkata circle remained flat, it improved significantly across its Noida circle, registering more than 15% YoY demand growth. As a result, PAT across the standalone business remained largely flat at INR1.9bn (+1.1% YoY), while it increased 104% YoY across its Noida segment to INR550mn. Haldia reported a 14.5% YoY decline in PAT to INR710mn due to the under-recovery of O&M and fuel costs. Combined losses across the DF segment of Rajasthan and Malegaon escalated to INR300mn vs INR100mn YoY. Accordingly, consolidated PAT declined marginally by 1.2% YoY to INR3.4bn due to lower profitability across the Haldia and DF businesses. 9MFY23 losses across its Rajasthan DF business increased to INR290mn vs INR190mn YoY, while losses across its Malegaon Circle escalated to INR670mn vs INR410mn due to a slowdown across the Handloom sector (export business impacted from the slowdown in Europe) which accounts for major power consumption in Malegaon. However, going ahead, we expect demand to normalise and the DF segment should break even in FY24 with a marginal profit of INR272mn.
- PLF improved across Haldia and Dhariwal:** Haldia's PLF during the quarter improved to 81.3% vs 79.8% YoY, while for Dhariwal, growth was much better at 80% in Q3FY23 vs 63.4% YoY. Dhariwal's robust improvement is led by the commencement of its three-year medium-term PPA with REMCL at a tariff of INR4.1/unit for a 210-MW capacity. With this arrangement, the project now has more than 83% of its capacity tied up under a PPA with only ~60MW capacity lying open for merchant markets. We expect Dhariwal to post a PAT of around INR1.8bn-INR1.9bn going ahead, vs INR1.4bn reported in FY22.
- Maintain BUY:** We have maintained our earnings estimates for FY23/24 and retained our BUY rating on CESC at a SoTP-based TP of INR108. Our positive stance on CESC is also based on the grounds that the company continues to trade at an attractive valuation of 6.6x FY25P/E and 0.7x FY25 P/BV. The stock also provides a high dividend yield of ~6-7%.

### Financial summary (Consolidated)

(INR mn, Mar YE)	3QFY23	3QFY22	YoY	2QFY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Revenues	17,080	20,910	-18.3	23,470	-27.2	72,940	81,908	86,599	90,353
EBITDA	2,250	4,180	-46.2	3,940	-42.9	11,180	16,406	17,333	15,677
APAT (Consol)	3,360	3,400	-1.2	3,190	5.3	13,368	14,618	14,901	15,416
Diluted Consol EPS (INR)	2.5	2.6	-1.2	2.4	5.3	10.1	11.0	11.2	11.6
P/E (x) (Consol)						7.6	7.0	6.8	6.6
Price/BV (Consol)						0.9	0.8	0.8	0.7
RoE (%)						13.1	14.6	14.5	14.4

Source: Company, HSIE Research

## BUY

CMP(as on 14 Feb 2023)	INR 75
Target Price	INR 108
NIFTY	17,930

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 108	INR 108
EPS Change %	FY23E	FY24E
	-	-

### KEY STOCK DATA

Bloomberg code	CESC IN
No. of Shares (mn)	1,326
MCap (INR bn) / (\$ mn)	99/1,200
6m avg traded value (INR mn)	189
52 Week high / low	INR 88/68

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.5)	(5.6)	(7.4)
Relative (%)	(0.5)	(8.2)	(15.6)

### SHAREHOLDING PATTERN (%)

	Sept-22	Dec-22
Promoters	52.1	52.1
FIs & Local MFs	22.4	22.0
FPIs	13.3	12.7
Public & Others	12.2	13.2
Pledged Shares	-	-

Source : BSE

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**Disclosure:**

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