

Profitability increase – A key positive

Power ▶ Result Update ▶ August 6, 2023

TARGET PRICE (Rs): 100

CESC reported Q1FY24 PAT growth of 23% YoY, both at the standalone and consolidated levels. At the standalone level, power demand growth of 7.5%, T&D loss at 7.5% (vs. 9% as allowed) along with high PLF (over 93%) helped in achieving this growth. Merchant prices helped in improving profitability of Dhariwal Infra (Rs790mn vs. Rs710mn) and Crescent Power (Rs200mn vs. Rs40mn), while Noida continued with increased profitability trend. More importantly, all three Rajasthan DFs have turned positive and reported combined PAT of Rs170mn during the quarter vs. Rs60mn YoY. Over the next few years, improvement in standalone PAT, lower loss levels at DFs, and higher PAT at Noida will all lead to improved consolidated earnings. On account of improving operational and financial metrics, we believe the worst has been factored in and, hence, reiterate our BUY rating, with a Jun-24E TP of Rs100/share. Our bear case value stands at Rs74/share.

CESC: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,25,439	1,42,460	1,38,944	1,44,386	1,50,453
EBITDA	36,538	34,250	37,450	38,072	39,303
Adj. PAT	13,581	13,430	14,947	15,666	17,002
Adj. EPS (Rs)	10.2	10.1	11.2	11.8	12.8
EBITDA margin (%)	29.1	24.0	27.0	26.4	26.1
EBITDA growth (%)	1.8	(6.3)	9.3	1.7	3.2
Adj. EPS growth (%)	2.0	(1.1)	11.3	4.8	8.5
RoE (%)	13.4	12.6	13.2	12.9	13.0
RoIC (%)	7.8	7.8	8.2	8.4	8.9
P/E (x)	7.7	7.8	7.0	6.7	6.2
EV/EBITDA (x)	5.9	6.4	5.7	5.2	4.8
P/B (x)	1.0	1.0	0.9	0.8	0.8
FCFF yield (%)	11.4	5.1	10.3	15.8	11.9

Source: Company, Emkay Research

Strong earnings growth on standalone level

CESC reported standalone PAT of Rs1.7bn – 23% YoY growth on account of 7.5% YoY volume growth. Tariff largely remained nearly constant in the Kolkata license area and, hence, higher volume led to improvement. T&D loss in the circle stood at ~7.5%, as against 9% as per the terms and conditions of the tariff, which would have increased profitability. Budge budge reported PLF of 93.5% in Q1FY24 vs. 89.3% YoY.

Subsidiary performance also sees improvement

Consolidated PAT for the quarter stood at Rs3.68bn vs. Rs2.97bn YoY. Standalone/Noida Power/Crescent Power/Dhariwal Infra all showed improvement in PAT. Noida Power reported PAT of Rs540mn vs. Rs340mn, while Crescent Power reported PAT of Rs200mn (Rs40mn in QF1Y23) because of good merchant prices. Rajasthan DFs reported positive bottom-line across all three circles, with further reduction in T&D loss. Combined PAT for the three circles stood at Rs170mn vs. Rs60mn YoY. Management remains confident of positive PAT for these circles during FY24 (FY23 reported loss of Rs250mn). PLF at Haldia/Chandrapur stood at 93.9%/90.4% as against 89.1%/86.3% during Q1FY24. The company also signed a long-term renewable PPA to procure 150MW Wind-Solar hybrid for a duration of 25 years. UPERC issued the FY24 tariff order for Noida power.

Valuation and outlook

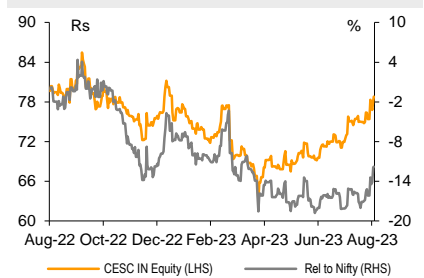
CESC has underperformed a majority of the utilities in the past two years owing to no increase in tariff in Kolkata license area and not much improvement in distribution circles in Rajasthan (these have been reporting loss for the past few years). We believe the company's current profitability has shown signs of improvement on both these assets. Further, profitability of Dhariwal and Noida Power has seen an uptick and will lead to better consolidated PAT going ahead. We reiterate our BUY rating on the stock, with Jun-24 TP of Rs100/share.

Target Price – 12M	Jun-24
Change in TP (%)	5.1
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	26.7
CMP (04-Aug-23) (Rs)	78.8

Stock Data	Ticker
52-week High (Rs)	87
52-week Low (Rs)	62
Shares outstanding (mn)	1,325.6
Market-cap (Rs bn)	104
Market-cap (USD mn)	1,261
Net-debt, FY24E (Rs mn)	1,07,487
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	243.8
ADTV-3M (USD mn)	2.9
Free float (%)	-
Nifty-50	19,517
INR/USD	82.8
Shareholding, Jun-23	
Promoters (%)	52.1
FPIs/MFs (%)	12.2/21.0

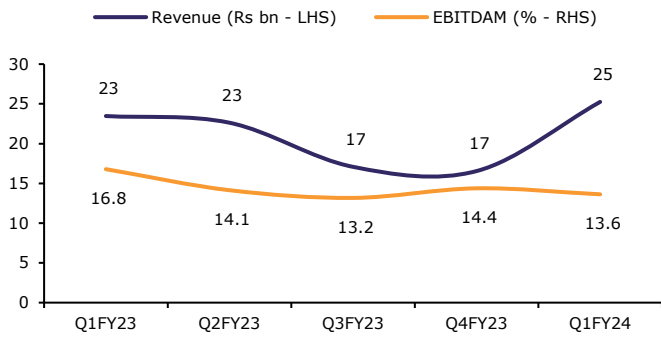
Price Performance

(%)	1M	3M	12M
Absolute	8.0	14.0	(1.4)
Rel. to Nifty	7.3	6.6	(12.2)

1-Year share price trend (Rs)**Abhineet Anand**abhineet.anand@emkayglobal.com
+91 22 6624 2466**Eshan Bhargava**Eshan.bhargava@emkayglobal.com
+91 22 6624 2453

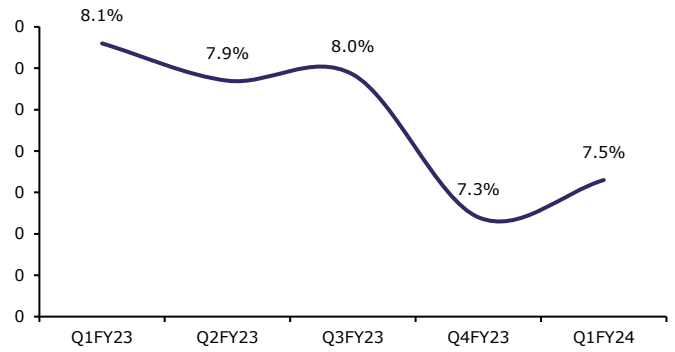
Story in Charts

Exhibit 1: Revenue increased significantly but EBITDAM declined



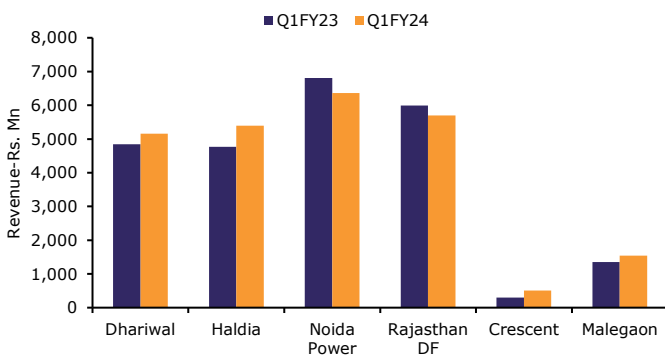
Source: Company, Emkay Research

Exhibit 2: T&D losses declined by 66bps YoY



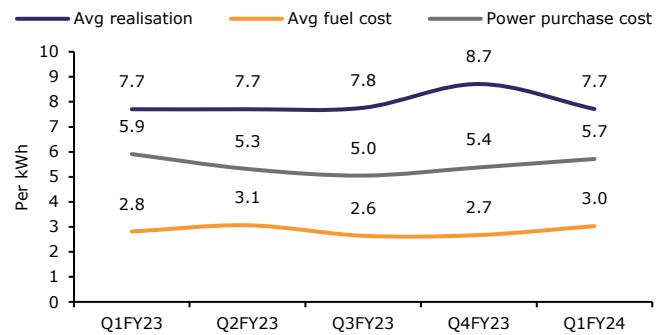
Source: Company, Emkay Research

Exhibit 3: Revenue increased across units, barring the leading two



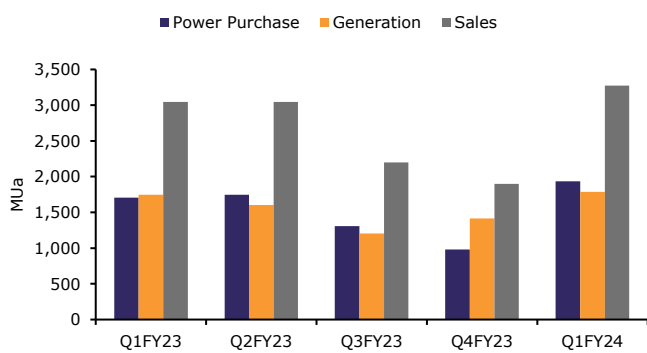
Source: Company, Emkay Research

Exhibit 4: Average realization dipped, while costs increased



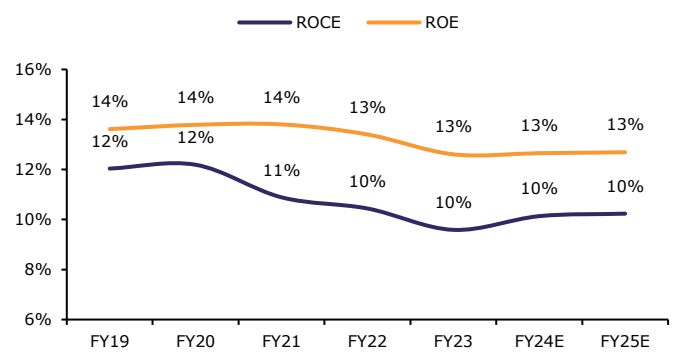
Source: Company, Emkay Research

Exhibit 5: The power sales mix was in favor of purchased power



Source: Company, Emkay Research

Exhibit 6: ROE and ROCE expected to remain flat



Source: Company, Emkay Research

Exhibit 7: Standalone Quarterly Results

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Revenues	23,470	22,630	17,080	16,550	25,250	8%	53%
Fuel Cost	14,990	14,200	9,790	9,060	16,460	10%	82%
as % of sales	63.9	62.7	57.3	54.7	65.2	132 bps	1044 bps
Employee Cost	2,310	2,760	2,380	2,380	2,570	11%	8%
as % of sales	9.8	12.2	13.9	14.4	10.2	34 bps	-420 bps
Other expenditure	2,230	2,470	2,660	2,730	2,780	25%	2%
as % of sales	9.5	10.9	15.6	16.5	11.0	151 bps	-549 bps
Total expenditure	19,530	19,430	14,830	14,170	21,810	12%	54%
EBITDA	3,940	3,200	2,250	2,380	3,440	-13%	45%
Depreciation	1,200	1,190	1,190	1,220	1,790	49%	47%
EBIT	2,740	2,010	1,060	1,160	1,650	-40%	42%
Other Income	200	480	560	560	210	5%	-63%
Interest	1,340	1,480	1,560	1,660	1,810	35%	9%
PBT	1,600	1,010	60	60	50	-97%	-17%
Taxes	350	680	510	760	450	29%	-41%
Regulatory Income	130	2,100	2,310	3,330	2,100	1515%	-37%
PAT	1,380	2,430	1,860	2,630	1,700	23%	-35%
Share in JV/ Associates	0	0	0	0	0		
Minority interest	0	0	0	0	0		
Adjusted PAT	1,380	2,430	1,860	2,630	1,700	23%	-35%
Adjusted EPS	1.04	1.82	1.40	1.97	1.28	23%	-35%
Margins (%)							
Gross Margins	36.1	37.3	42.7	45.3	34.8	-132 bps	-1044 bps
EBIDTAM	16.8	14.1	13.2	14.4	13.6	-316 bps	-76 bps
EBITM	11.7	8.9	6.2	7.0	6.5	-514 bps	-47 bps
PBTM	6.8	4.5	0.4	0.4	0.2	-662 bps	-16 bps
PATM	5.9	10.7	10.9	15.9	6.7	85 bps	-916 bps
Effective Tax rate	21.9	67.3	850.0	1,266.7	900.0	N.A.	N.A.

Source: Company, Emkay Research

Exhibit 8: SoTP – June-24

	Value (Rs mn)	Multiple	Method	Stake	Target Value (Rs mn)	Rs/share	Bear case (Rs/share)	Remarks
Distribution								
Kolkata Reg Equity	37,074	~1.5	(RoE-g)/(CoE-g)	100%	55,699	42	38	1.4x for Bear case
Noida	6,928	2.1	(RoE-g)/(CoE-g)	73.0%	10,647	8	7	1.4x for Bear case
Distribution Franchisee	4,115	1.5	Equity Investment	100.0%	6,173	5	-3	On improvement
Chandigarh License	1,800	1.5	Equity Investment	100.0%				On handover
Total					72,519	54	42	
Generation								
Kolkata Reg Equity	12,848	1.4	RoE/Ke	100%	17,876	13	13	1.35x for Bear case
Haldia Reg Equity	10,500	2.0	RoE/Ke	100%	21,000	16	11	1.35x for Bear case
Dhariwal/Chandrapur	14,962	1.0	NPV	100%	14,962	11	4	
Total					53,838	40	27	
Dividend per share					5,995	5	5	
SoTP – Jun-24					1,32,352	100	74	

Source: Company

CESC: Consolidated Financials and Valuations

Profit and Loss

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,25,439	1,42,460	1,38,944	1,44,386	1,50,453
Revenue growth (%)	7.8	13.6	(2.5)	3.9	4.2
EBITDA	36,538	34,250	37,450	38,072	39,303
EBITDA growth (%)	1.8	(6.3)	9.3	1.7	3.2
Depreciation & Amortization	8,847	8,780	9,166	9,338	9,378
EBIT	27,691	25,470	28,284	28,734	29,925
EBIT growth (%)	1.7	(8.0)	11.0	1.6	4.1
Other operating income	0	0	0	0	0
Other income	2,757	3,090	3,214	3,342	3,476
Financial expense	11,293	11,170	11,626	11,231	10,786
PBT	19,155	17,390	19,872	20,845	22,615
Extraordinary items	0	0	0	0	0
Taxes	5,114	3,420	4,372	4,586	4,975
Minority interest	460	540	553	593	637
Income from JV/Associates	0	0	0	0	0
Reported PAT	13,581	13,430	14,947	15,666	17,002
PAT growth (%)	2.0	(1.1)	11.3	4.8	8.5
Adjusted PAT	13,581	13,430	14,947	15,666	17,002
Diluted EPS (Rs)	10.2	10.1	11.2	11.8	12.8
Diluted EPS growth (%)	2.0	(1.1)	11.3	4.8	8.5
DPS (Rs)	4.5	4.5	4.9	5.3	5.6
Dividend payout (%)	44.4	45.0	43.3	44.9	43.6
EBITDA margin (%)	29.1	24.0	27.0	26.4	26.1
EBIT margin (%)	22.1	17.9	20.4	19.9	19.9
Effective tax rate (%)	26.7	19.7	22.0	22.0	22.0
NOPLAT (pre-IndAS)	20,298	20,461	22,062	22,412	23,341
Shares outstanding (mn)	1,332.2	1,332.0	1,332.0	1,332.0	1,332.0

Source: Company, Emkay Research

Cash Flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	19,155	17,390	19,872	20,845	22,615
Others (non-cash items)	0	0	0	0	0
Taxes paid	(3,917)	(2,980)	(2,461)	(2,461)	(2,461)
Change in NWC	(7,290)	(12,779)	(2,626)	3,490	(4,083)
Operating cash flow	23,766	16,509	30,199	36,937	30,594
Capital expenditure	986	(5,308)	(8,320)	(5,951)	(8,155)
Acquisition of business	249	374	0	0	0
Interest & dividend income	991	991	991	991	991
Investing cash flow	2,231	1,607	(5,106)	(2,609)	(4,679)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	6,974	(6,769)	(2,718)	0	(2,833)
Payment of lease liabilities	(471)	(460)	(460)	(460)	(460)
Interest paid	(11,293)	(11,170)	(11,626)	(11,231)	(10,786)
Dividend paid (incl tax)	(6,026)	(6,040)	(6,467)	(7,031)	(7,407)
Others	(1,736)	(752)	253	40	(350)
Financing cash flow	(12,082)	(24,731)	(20,558)	(18,222)	(21,376)
Net chg in Cash	13,915	(6,615)	4,535	16,106	4,539
OCF	23,766	16,509	30,199	36,937	30,594
Adj. OCF (w/o NWC chg.)	16,476	3,730	27,573	40,427	26,511
FCFF	24,753	11,201	21,879	30,986	22,439
FCFE	14,451	1,022	11,245	20,746	12,644
OCF/EBITDA (%)	65.0	48.2	80.6	97.0	77.8
FCFE/PAT (%)	106.4	7.6	75.2	132.4	74.4
FCFF/NOPLAT (%)	121.9	54.7	99.2	138.3	96.1

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,332	1,332	1,332	1,332	1,332
Reserves & Surplus	1,02,632	1,07,770	1,16,250	1,24,886	1,34,480
Net worth	1,03,964	1,09,102	1,17,582	1,26,218	1,35,812
Minority interests	4,342	4,790	5,343	5,936	6,574
Deferred tax liability (net)	42,875	42,790	42,790	42,790	42,790
Total debt	1,47,389	1,40,620	1,37,902	1,37,902	1,35,069
Total liabilities & equity	2,98,570	2,97,302	3,03,617	3,12,846	3,20,245
Net tangible fixed assets	2,30,187	2,26,340	2,25,494	2,22,107	2,20,884
Net intangible assets	1,340	1,290	1,290	1,290	1,290
Net ROU assets	6,755	6,755	6,755	6,755	6,755
Capital WIP	1,025	1,400	1,400	1,400	1,400
Goodwill	0	0	0	0	0
Investments [JV/Associates]	1,774	1,400	1,400	1,400	1,400
Cash & equivalents	35,946	25,880	30,415	46,521	51,060
Current assets (ex-cash)	84,319	1,01,060	1,00,870	1,02,065	1,03,363
Current Liab. & Prov.	56,021	60,068	57,252	61,937	59,152
NWC (ex-cash)	28,298	40,992	43,618	40,128	44,211
Total assets	2,98,570	2,97,302	3,03,617	3,12,846	3,20,246
Net debt	1,11,443	1,14,740	1,07,487	91,381	84,009
Capital employed	2,98,570	2,97,302	3,03,617	3,12,846	3,20,245
Invested capital	2,58,485	2,67,332	2,69,112	2,62,235	2,65,096
BVPS (Rs)	78.0	81.9	88.3	94.8	102.0
Net Debt/Equity (x)	1.1	1.1	0.9	0.7	0.6
Net Debt/EBITDA (x)	3.1	3.4	2.9	2.4	2.1
Interest coverage (x)	0.4	0.4	0.4	0.4	0.3
RoCE (%)	10.4	9.6	10.5	10.4	10.6

Source: Company, Emkay Research

Valuations and Key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	7.7	7.8	7.0	6.7	6.2
P/CE(x)	4.7	4.7	4.4	4.2	4.0
P/B (x)	1.0	1.0	0.9	0.8	0.8
EV/Sales (x)	1.7	1.5	1.5	1.4	1.3
EV/EBITDA (x)	5.9	6.4	5.7	5.2	4.8
EV/EBIT(x)	7.8	8.6	7.5	6.8	6.3
EV/IC (x)	0.8	0.8	0.8	0.7	0.7
FCFF yield (%)	11.4	5.1	10.3	15.8	11.9
FCFE yield (%)	13.8	1.0	10.7	19.8	12.0
Dividend yield (%)	5.7	5.8	6.2	6.7	7.1
DuPont-RoE split					
Net profit margin (%)	10.8	9.4	10.8	10.9	11.3
Total asset turnover (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	2.9	2.8	2.7	2.5	2.4
RoE (%)	13.4	12.6	13.2	12.9	13.0
DuPont-RoIC					
NOPLAT margin (%)	16.2	14.4	15.9	15.5	15.5
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	7.8	7.8	8.2	8.4	8.9
Operating metrics					
Core NWC days	82.3	105.0	114.6	101.4	107.3
Total NWC days	82.3	105.0	114.6	101.4	107.3
Fixed asset turnover	0.4	0.5	0.4	0.5	0.5
Opex-to-revenue (%)	42.6	39.6	41.5	41.4	41.2

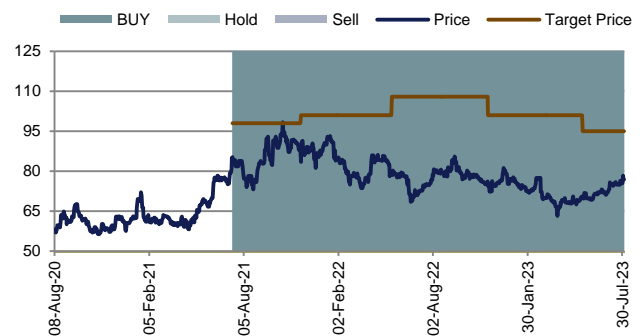
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
23-May-23	70	95	Buy	Abhineet Anand
15-May-23	71	95	Buy	Abhineet Anand
06-Mar-23	70	101	Buy	Abhineet Anand
15-Feb-23	77	101	Buy	Abhineet Anand
05-Feb-23	73	101	Buy	Abhineet Anand
04-Jan-23	77	101	Buy	Abhineet Anand
06-Dec-22	75	101	Buy	Abhineet Anand
15-Nov-22	75	101	Buy	Abhineet Anand
26-Sep-22	78	108	Buy	Abhineet Anand
11-Sep-22	83	108	Buy	Abhineet Anand
21-Jun-22	71	108	Buy	Abhineet Anand
09-Jun-22	78	108	Buy	Abhineet Anand
15-May-22	79	108	Buy	Abhineet Anand
22-Feb-22	76	101	Buy	Abhineet Anand
13-Jan-22	92	101	Buy	Abhineet Anand
22-Nov-21	84	101	Buy	Abhineet Anand
14-Jul-21	85	98	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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