

**Growth is Back**Power ▶ Company Update ▶ **September 7, 2023****TARGET PRICE (Rs): 105**

We re-iterate **BUY** on CESC with Sep'24 TP of Rs105 as operational metrics continues to see improvement. During July and August 2023 cumulatively, CESC License Generation power plant and HEL power plant (1,125MW + 600MW capacity) generated 2,030MUs (16% growth YoY) vs 8% YTD. CESC's DIL power plant (600 MW capacity) has seen generation growth of 27% YoY during the first two months of 2QFY24 (YTD ~13% growth YoY). YTD PLF for DIL stands at 90% vs 80% YoY. Rajasthan DFs had reported positive bottom line across all three circles (during 1QFY24), with further reduction in T&D loss. Combined PAT for the three circles in Q1FY24 stood at Rs170mn vs. Rs60mn YoY. We believe all the above mentioned improvements will lead to decent EPS growth in coming years which was missing in FY23.

**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)	9.0	9.1	8.2	7.8	7.2
EV/EBITDA (x)	6.4	6.9	6.1	5.6	5.3
P/B (x)	1.2	1.1	1.0	1.0	0.9
FCFF yield (%)	11.4	5.1	10.3	15.8	11.9

Source: Company, Emkay Research

**Standalone performance on improvement path**

During July and August 2023, CESC License Generation power plant and HEL power plant (1,125MW + 600MW capacity) on a cumulative basis generated 2,030MUs (16% growth YoY). This clearly highlights that the strong power demand during 1QFY24 (7.5% YoY) in the license area has further strengthened in 2QFY24. CESC license area/HEL generation growth has been 13.8%/18% YoY for the period July-Aug'23. CESC license area PLF on YTD basis stood at 71.65% vs 67.21% YoY (during 1QFY24 it was 72.7% vs 71% YoY). For HEL, YTD PLF stands at 95% vs 86% YoY. Barring the flat growth rate in April-23 and May-23 on account of unseasonal rains, generation in both these plants has witnessed an upward trajectory from June-23 till August-23. Further company had achieved T&D loss at 7.5% during 1QFY24 vs. 9% as allowed in regulations.

**DIL plant performance**

Significant performance improvement was seen in CESC's DIL power plant (600 MW capacity); during July and August 2023, the plant generated 808MUs (27% YoY growth) on a cumulative basis, recording an average PLF of 90% vs. 72%. YTD the plant generated 1,992MUs (~13% growth YoY), recording a PLF of 90% vs. 80% YoY.

**Rajasthan DFs turning positive**

Rajasthan DFs reported a positive bottom line (during 1QFY24) across all three circles, with further reduction in T&D loss. Combined PAT for the three circles in Q1FY24 stood at Rs170mn vs. Rs60mn YoY. Management remains confident of positive PAT for these circles during FY24 (FY23 reported a loss of Rs250mn).

**Valuation**

We believe the company's current profitability has shown signs of improvement. Further, the profitability of Dhariwal and Noida Power has seen an uptick. We roll forward our valuation to Sep'24 with TP of Rs105 and maintain BUY. We see mid-high single digit earnings growth along with ~Rs5 as DPS for the stock.

Target Price – 12M	Jun-24
<b>Change in TP (%)</b>	<b>4.5</b>
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	13.5
CMP (06-Sep-23) (Rs)	92.1

Stock Data	Ticker
52-week High (Rs)	93
52-week Low (Rs)	62
Shares outstanding (mn)	1,325.6
Market-cap (Rs bn)	122
Market-cap (USD mn)	1,468
Net-debt, FY24E (Rs mn)	1,07,487
ADTV-3M (mn shares)	5
ADTV-3M (Rs mn)	374.3
ADTV-3M (USD mn)	4.5
Free float (%)	47
Nifty-50	19,611
INR/USD	83.1
<b>Shareholding, Jun-23</b>	
Promoters (%)	52.1
FPIs/MFs (%)	12.2/21.0

**Price Performance**

(%)	1M	3M	12M
Absolute	16.9	29.3	14.1
Rel. to Nifty	16.3	22.6	2.7

**1-Year share price trend (Rs)****Abhineet Anand**

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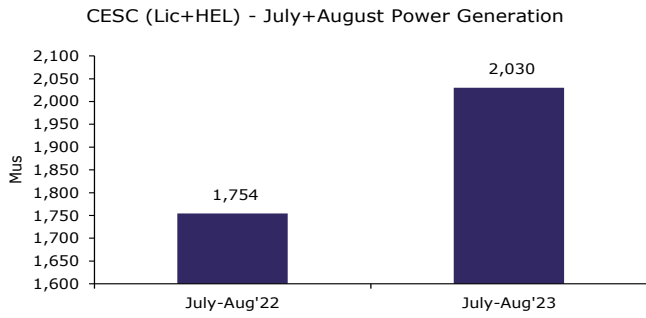
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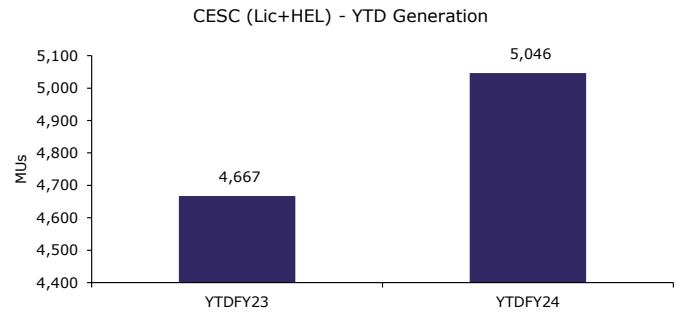
## Story in Charts

**Exhibit 1: CESC (LIC+HEL) July-Aug 2023 generation grew 16% YoY**



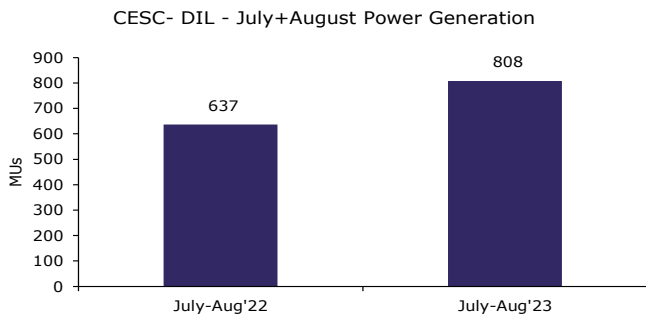
Source: Industry, Emkay Research

**Exhibit 2: CESC (LIC+HEL) YTD generation grew 8% YoY**



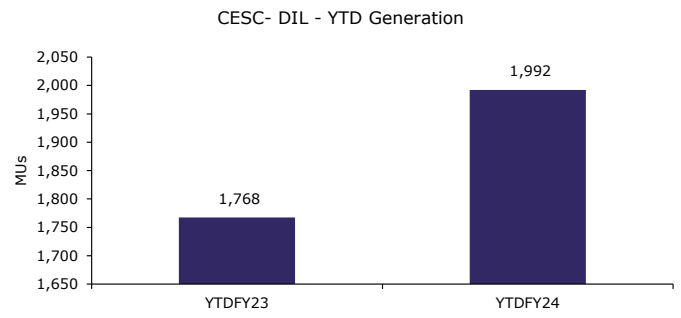
Source: Industry, Emkay Research

**Exhibit 3: DIL plant July-Aug 2023 generation grew 27% YoY**



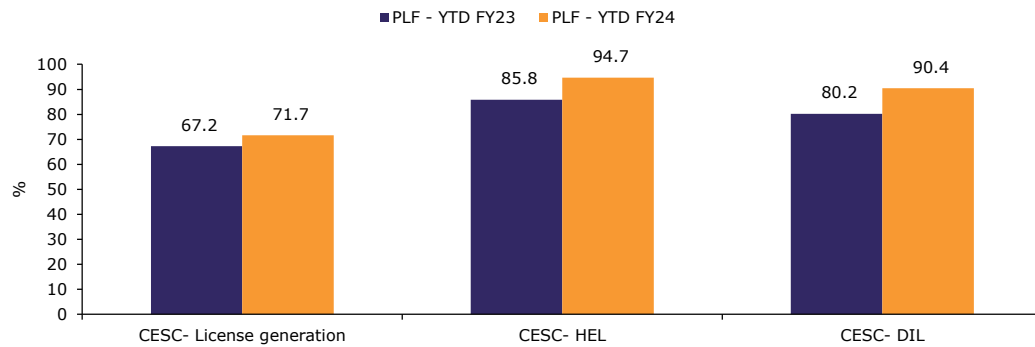
Source: Industry, Emkay Research

**Exhibit 4: DIL plant YTD generation grew 13% YoY**



Source: Industry, Emkay Research

**Exhibit 5: Average plant-wise YTD PLF recording improvement on a YoY basis**



Source: Industry, Emkay Research

**Exhibit 6: SoTP-Sep. 2024**

	Value (Rs mn)	Multiple	Method	Stake	Target Value (Rs mn)	Rs/share
<b>Distribution</b>						
Kolkata Reg. Equity	37,824	~1.5	(RoE-g)/(CoE-g)	100%	56,736	43
Noida	7,028	2.1	(RoE-g)/(CoE-g)	73.0%	10,647	8
Distribution Franchisee	4,115	1.5	Equity Investment	100.0%	6,173	5
Chandigarh License	1,800	1.5	Equity Investment	100.0%		
<b>Total</b>					<b>73,709</b>	<b>55</b>
<b>Generation</b>						
Kolkata Reg. Equity	12,848	1.4	RoE/Ke	100%	17,876	13
Haldia Reg. Equity	10,500	2.0	RoE/Ke	100%	21,000	16
Dhariwal/Chandrapur	20,000	8.0	NPV	100%	20,000	15
<b>Total</b>					<b>58,876</b>	<b>44</b>
Dividend per share					5,995	5
<b>SoTP – Sep. 2024</b>					<b>1,38,580</b>	<b>105</b>

Source: Emkay Research

## CESC: Consolidated Financials and Valuations

Profit and Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>1,25,439</b>	<b>1,42,460</b>	<b>1,38,944</b>	<b>1,44,386</b>	<b>1,50,453</b>
Revenue growth (%)	7.8	13.6	(2.5)	3.9	4.2
<b>EBITDA</b>	<b>36,538</b>	<b>34,250</b>	<b>37,450</b>	<b>38,072</b>	<b>39,303</b>
EBITDA growth (%)	1.8	(6.3)	9.3	1.7	3.2
Depreciation & Amortization	8,847	8,780	9,166	9,338	9,378
<b>EBIT</b>	<b>27,691</b>	<b>25,470</b>	<b>28,284</b>	<b>28,734</b>	<b>29,925</b>
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
<b>PBT</b>	<b>19,155</b>	<b>17,390</b>	<b>19,872</b>	<b>20,845</b>	<b>22,615</b>
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
<b>Reported PAT</b>	<b>13,581</b>	<b>13,430</b>	<b>14,947</b>	<b>15,666</b>	<b>17,002</b>
PAT growth (%)	2.0	(1.1)	11.3	4.8	8.5
<b>Adjusted PAT</b>	<b>13,581</b>	<b>13,430</b>	<b>14,947</b>	<b>15,666</b>	<b>17,002</b>
<b>Diluted EPS (Rs)</b>	<b>10.2</b>	<b>10.1</b>	<b>11.2</b>	<b>11.8</b>	<b>12.8</b>
Diluted EPS growth (%)	2.0	(1.1)	11.3	4.8	8.5
<b>DPS (Rs)</b>	<b>4.5</b>	<b>4.5</b>	<b>4.9</b>	<b>5.3</b>	<b>5.6</b>
<b>Dividend payout (%)</b>	<b>44.4</b>	<b>45.0</b>	<b>43.3</b>	<b>44.9</b>	<b>43.6</b>
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
<b>NOPLAT (pre-IndAS)</b>	<b>20,298</b>	<b>20,461</b>	<b>22,062</b>	<b>22,412</b>	<b>23,341</b>
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)
<b>Operating cash flow</b>	<b>23,766</b>	<b>16,509</b>	<b>30,199</b>	<b>36,937</b>	<b>30,594</b>
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
<b>Investing cash flow</b>	<b>2,231</b>	<b>1,607</b>	<b>(5,106)</b>	<b>(2,609)</b>	<b>(4,679)</b>
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)
<b>Financing cash flow</b>	<b>(12,082)</b>	<b>(24,731)</b>	<b>(20,558)</b>	<b>(18,222)</b>	<b>(21,376)</b>
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
<b>FCFF/NOPLAT (%)</b>	<b>121.9</b>	<b>54.7</b>	<b>99.2</b>	<b>138.3</b>	<b>96.1</b>

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
<b>Net worth</b>	<b>1,03,964</b>	<b>1,09,102</b>	<b>1,17,582</b>	<b>1,26,218</b>	<b>1,35,812</b>
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
<b>Total debt</b>	<b>1,47,389</b>	<b>1,40,620</b>	<b>1,37,902</b>	<b>1,37,902</b>	<b>1,35,069</b>
<b>Total liabilities &amp; equity</b>	<b>2,98,570</b>	<b>2,97,302</b>	<b>3,03,617</b>	<b>3,12,846</b>	<b>3,20,245</b>
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
<b>Cash &amp; equivalents</b>	<b>35,946</b>	<b>25,880</b>	<b>30,415</b>	<b>46,521</b>	<b>51,060</b>
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
<b>NWC (ex-cash)</b>	<b>28,298</b>	<b>40,992</b>	<b>43,618</b>	<b>40,128</b>	<b>44,211</b>
<b>Total assets</b>	<b>2,98,570</b>	<b>2,97,302</b>	<b>3,03,617</b>	<b>3,12,846</b>	<b>3,20,246</b>
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
<b>Invested capital</b>	<b>2,58,485</b>	<b>2,67,332</b>	<b>2,69,112</b>	<b>2,62,235</b>	<b>2,65,096</b>
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
<b>RoCE (%)</b>	<b>10.4</b>	<b>9.6</b>	<b>10.5</b>	<b>10.4</b>	<b>10.6</b>

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	9.0	9.1	8.2	7.8	7.2
P/CE(x)	4.7	4.7	4.4	4.2	4.0
P/B (x)	1.2	1.1	1.0	1.0	0.9
EV/Sales (x)	1.9	1.7	1.7	1.5	1.4
EV/EBITDA (x)	6.4	6.9	6.1	5.6	5.3
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 (%)	4.9	4.9	5.3	5.7	6.0
<b>DuPont-RoE split</b>					
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
<b>RoE (%)</b>	<b>13.4</b>	<b>12.6</b>	<b>13.2</b>	<b>12.9</b>	<b>13.0</b>
<b>DuPont-RoIC</b>					
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
<b>RoIC (%)</b>	<b>7.8</b>	<b>7.8</b>	<b>8.2</b>	<b>8.4</b>	<b>8.9</b>
<b>Operating metrics</b>					
Core NWC days	82.3	105.0	114.6	101.4	107.3
<b>Total NWC days</b>	<b>82.3</b>	<b>105.0</b>	<b>114.6</b>	<b>101.4</b>	<b>107.3</b>
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

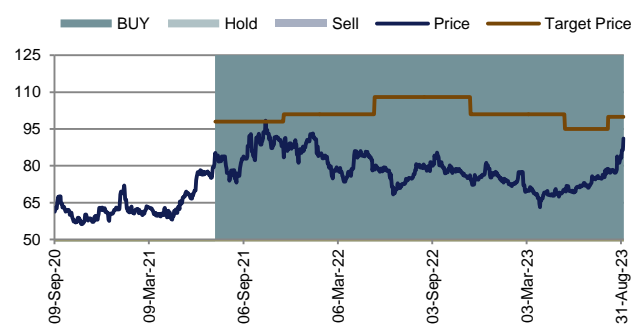
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
06-Aug-23	79	100	Buy	Abhineet Anand
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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