



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

## ESG Disclosure Score

NEW

ESG RISK RATING  
Updated Aug 08, 2023

33.86

## High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

## Company details

Market cap:	Rs. 11,840 cr
52-week high/low:	Rs. 94/62
NSE volume: (No of shares)	42.4 lakh
BSE code:	500084
NSE code:	CESC
Free float: (No of shares)	63.5 cr

## Shareholding (%)

Promoters	52
FII	13
DII	20
Others	15

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	15.6	29.2	18.8
Relative to Sensex	3.2	16.9	24.6	11.8

Sharekhan Research, Bloomberg

## CESC Ltd

## Steady Q2 growth; renewed focus on RE a positive

Power	Sharekhan code: CESC		
Reco/View: Buy	↔	CMP: Rs. 89	Price Target: Rs. 105
↑ Upgrade	↔ Maintain	↓ Downgrade	

## Summary

- Q2 consolidated PAT grew by 14% y-o-y to Rs. 348 crore, supported by solid earnings from Haldia/Dhariwal/ Crescent Power, offsetting a 5% y-o-y decline in standalone earnings.
- RJ DF posted a loss of Rs2 crore (versus Rs17 crore PAT in Q1FY24) due to marginal loss at Kota DF, while Bharatpur/Bikaner DF posted a positive PAT. Haldia/Dhariwal PLF was strong at 95%/91% in Q2FY24.
- CESC's plan to explore investment opportunities in RE generation (up to 3GW) is the right decision as it would support growth.
- We retain Buy on CESC with a revised PT of Rs. 105. Valuation of 0.9x/0.8x FY25E/FY26E P/BV is attractive, and stock offers healthy dividend yield of ~5%. Turnaround of power distribution businesses could create value.

CESC's Q2FY24 consolidated revenues, operating profit and PAT, grew strongly by 10%/19%/14% y-o-y to Rs. 4,713 crore/Rs. 1,007 crore/Rs. 348 crores led by solid earnings growth from subsidiaries, which offset a 5% y-o-y decline in standalone PAT to Rs230 crore given rise in depreciation offsetting 5% y-o-y increase in power sales volume to 3117 million units. Robust performance of subsidiaries – 1) Haldia Energy PAT grew by 20% y-o-y to Rs66 crore, led by a higher PLF of 94.9% versus 83.2% in Q2FY23, 2) Dhariwal Infrastructure posted 55% y-o-y PAT growth to Rs68 crore led the higher rise in volume (1120 million units, up 22% y-o-y) and higher power price on energy exchanges, 3) higher PAT of Rs15 crore (up 50% y-o-y) from Crescent Power, 4) RJ DF posted lower loss of Rs2 crore (versus Rs24 crore in Q2FY24) although versus PAT of Rs17 crore in Q1FY24. Bharatpur/Bikaner DF posted positive PAT but Kota DF registered minor loss in Q2FY24. Nodia distribution profits declined by 10% y-o-y to Rs. 37 crore.

## Key positives

- Haldia/Dhariwal PAT was up 20%/55% y-o-y.

## Key negatives

- Malegaon/RJ DF's losses at Rs28 crore/Rs2 crore.

**Revision in estimates** – We maintain our FY24/FY25 earnings estimates and have introduced our FY26 earnings estimate.

## Our Call

**Valuation – Maintain Buy with a revised SoTP-based PT of Rs. 105:** CESC is a play on investment and turnaround of the power distribution business and earnings are expected to gradually improve over the coming years. Valuation is attractive at 0.9x/0.8x its FY2025E/ FY2026E P/BV, and the stock offers a healthy dividend yield of ~5%. Hence, we maintain a Buy on CESC with a revised SoTP-based PT of Rs. 105.

## Key Risks

Sustained losses in distribution franchisees for an extended period and lower utilisation at the Chandrapur plant.

## Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	7,294	8,087	8,684	9,120	9,434
OPM (%)	15.3	17.0	17.5	18.5	18.5
PAT	816	811	959	1,082	1,122
% y-o-y growth	0.2	(0.6)	18.3	12.8	3.7
EPS (Rs.)	6.2	6.1	7.2	8.2	8.5
P/E (x)	12.9	13.0	11.0	9.7	9.4
P/B (x)	1.1	1.0	0.9	0.9	0.8
EV/EBITDA (x)	15.8	11.4	9.8	8.4	7.7
RoCE (%)	6.7	6.7	7.8	8.3	8.2
RoE (%)	8.2	7.9	8.9	9.4	9.1

Source: Company; Sharekhan estimates

## Strong Q2 consolidated earnings growth

Q2FY24 consolidated revenues, operating profit and PAT, grew strongly by 10%/19%/14% y-o-y to Rs. 4,713 crore/ Rs. 1,007 crore/Rs. 348 crore led by strong earnings growth from subsidiaries, which offset a 5% y-o-y decline in standalone PAT to Rs230 crore, given a rise in depreciation offsetting a 5% y-o-y increase in power sales volume to 3117 million units.

The robust performance of subsidiaries – 1) Haldia Energy PAT grew by 20% y-o-y to Rs66 crore led by a higher PLF of 94.9% versus 83.2% in Q2FY23, 2) Dhariwal Infrastructure posted 55% y-o-y PAT growth to Rs68 crore led higher rise in volume (1120 million units, up 22% y-o-y) and higher power price on energy exchanges, 3) higher PAT of Rs15 crore (up 50% y-o-y) from Crescent Power, 4) RJ DF posted lower loss of Rs2 crore (versus Rs24 crore in Q2FY24) although versus PAT of Rs17 crore in Q1FY24. Bharatpur/Bikaner DF posted positive PAT, but Kota DF registered a minor loss in Q2FY24. Nodia distribution profits declined by 10% year-to-year to Rs37 crore. Malegaon DF loss was at Rs28 crore versus Rs29 crore in Q2FY23.

### Results (Standalone)

					Rs cr
Particulars	Q4FY22	Q4FY21	YoY(%)	Q3FY22	QoQ(%)
<b>Revenue</b>	<b>2,737</b>	<b>2,473</b>	<b>10.7</b>	<b>2,735</b>	<b>0.1</b>
Total expenditure	2,125	1,943	9.4	2,181	(2.6)
<b>Operating profit</b>	<b>612</b>	<b>530</b>	<b>15.5</b>	<b>554</b>	<b>10.5</b>
Other Income	47	48	(2.1)	21	123.8
Depreciation	178	119	49.6	179	(0.6)
Finance Cost	176	148	18.9	181	(2.8)
PBT	305	311	(1.9)	215	41.9
Tax	75	68	10.3	45	66.7
<b>Reported PAT</b>	<b>230</b>	<b>243</b>	<b>(5.3)</b>	<b>170</b>	<b>35.3</b>
EPS (Rs.)	17.3	18.3	(5.3)	12.8	35.3
<b>Margin (%)</b>			<b>bps</b>		<b>bps</b>
OPM (%)	22.4	21.4	93	20.3	210
NPM (%)	9.4	10.7	-134	6.7	266
Tax Rate (%)	24.6	21.9	273	20.9	366

Source: Company; Sharekhan Research

### Financial performance of key subsidiaries

					Rs cr
Particulars	Revenue		PAT		
	Q2FY24	Q2FY23	Q2FY24	Q2FY23	
Haldia Energy	537	458	66	55	
Dhariwal Infrastructure	530	449	68	44	
Crescent Power	46	39	15	10	
Noida Power	712	674	37	41	
Kota/Bharatpur/Bikaner	591	529	-2	-24	
Malegaon	160	148	-28	-29	

Source: Company; Sharekhan Research

## Results (Consolidated)

Particulars	Q2FY24	Q2FY23	y-o-y (%)	Q1FY24	q-o-q (%)
<b>Revenue</b>	<b>4,713</b>	<b>4,270</b>	<b>10.4%</b>	<b>4,574</b>	<b>3.0%</b>
Total expenditure	3,706	3,423	8.3%	3,586	3.3%
<b>Operating profit</b>	<b>1007</b>	<b>847</b>	<b>18.9%</b>	<b>988</b>	<b>1.9%</b>
Other income	62	64	-3.1%	59	5.1%
Depreciation	303	221	37.1%	300	1.0%
EBIT	766	690	11.0%	747	2.5%
Interest	305	274	11.3%	308	-1.0%
<b>PBT</b>	<b>461</b>	<b>416</b>	<b>10.8%</b>	<b>439</b>	<b>5.0%</b>
Tax	98	97	1.0%	71	38.0%
<b>PAT</b>	<b>363</b>	<b>319</b>	<b>13.8%</b>	<b>368</b>	<b>-1.4%</b>
Minority interest	15	14	7.1%	21	-28.6%
<b>Reported PAT post MI</b>	<b>348</b>	<b>305</b>	<b>14.1%</b>	<b>347</b>	<b>0.3%</b>
Reported EPS	2.6	2.3	14.1%	2.6	0.3%
<b>Margin (%)</b>			<b>bps</b>		<b>bps</b>
OPM	21.4	19.8	153	21.6	-23
NPM	7.4	7.1	24	7.6	-20
Tax rate	21.3	23.3	-206	16.2	509

Source: Company; Sharekhan Research

## Generation business – operational performance

	Capacity (MW)	Q2 FY`24		Q2 FY`23	
		Sent Out Units (MU)	PLF %	Sent Out Units (MU)	PLF %
Budge Budge Generating Station	750	1415	92.7%	1240	81.6%
Southern Generating Station	135	206	76%	232	85%
Haldia Energy	600	1162	94.9%	1012	83.2%
Dhariwal Infrastructure	600	1120	90.8%	915	74.7%
Crescent Power	40	65	84%	64	83%
Solar (TN)	18	6.8	21.7%	6.7	21.5%

Source: Company

## Distribution business – operational performance

	Q2FY`24			Q2FY`23		
	Sales (MU)	T&D Loss %	Revenue (Rs. Crs)	Sales (MU)	T&D Loss %	Revenue (Rs. Crs)
CESC Kolkata	3117	7.61% *	2495	2959	7.98% *	2311
Noida Power	953	8.65	712	853	8.29	674
Kota DF	392	16.53	302	410	15.72	285
Bharatpur DF	93	11.20	72	82	12.40	60
Bikaner DF	249	14.80	217	217	16.55	184
Malegaon DF	205	40.3%	160	184	40.3%	148

Source: Company

## Outlook and Valuation

### ■ Sector Outlook – The regulated tariff model provides earnings visibility for power-generation companies

The Central Electricity Regulatory Commission (CERC) regulates India's power sector through an availability-based earnings model (i.e., fixed RoE on power-generation assets). Thus, the regulated tariff model provides strong earnings visibility for power-generation companies like CESC. Better power demand (except for April-May 2021, given the lockdown, yet the situation is better than last year) would drive up PLFs for power-generation companies and better PLF incentive income. Additionally, receivables of power-generation companies are likely to reduce in FY2022 as an economic recovery would result in the timely receipt of dues from customers.

### ■ Company Outlook – Steady performance by standalone biz, the turnaround of subsidiaries to improve consolidated earnings

Recovery in earnings from standalone operations given strong power demand, lower losses at distribution franchisees led by lower T&D losses, and higher utilisation at Dhariwal Infrastructure and potential turnaround of Rajasthan/ Malegaon DF are expected to improve the consolidated earnings of CESC over FY2024E-FY2026E.

### ■ Valuation – Maintain Buy with a revised SoTP-based PT of Rs. 105

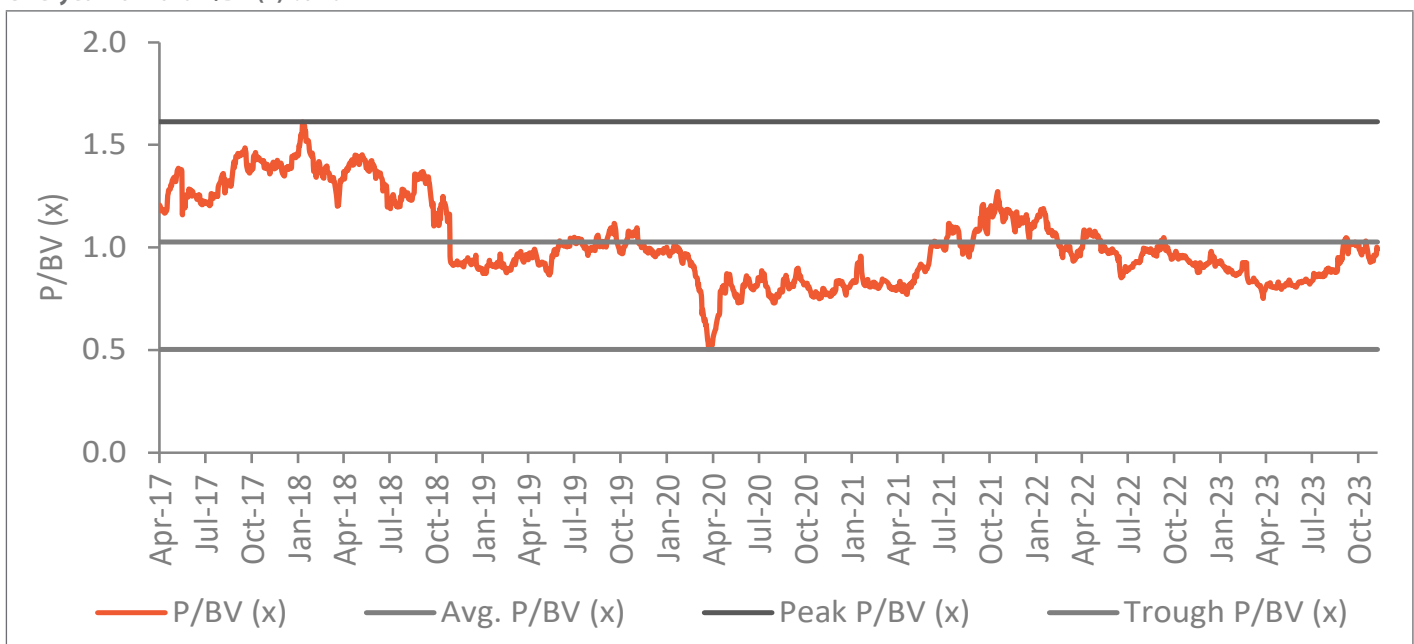
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#### SoTP-based PT of Rs. 105

Particulars	Value (Rs/share)	Methodology
Standalone business	63	9x FY26E EPS
Haldia	18	2x regulated equity of ~Rs1150 crore
Dhariwal	15	2x regulated equity of ~Rs1000 crore
Crescent Power	1	6.5x FY23 PAT for 67.8% stake
Noida	5	2.5x regulated equity of ~Rs400 crore for 72.73% stake
DF	3	1x Investments
<b>Price target</b>	<b>105</b>	

Source: Company; Sharekhan Research

#### One-year forward P/BV (x) band



Source: Sharekhan Research

## About the company

CESC started operations in 1899. The company is a fully integrated power utility company. The company is the sole electricity distributor within 567 sq. km of Kolkata and Howrah and serves 3.3 million consumers (including domestic, industrial, and commercial users). The company owns and operates three thermal power plants with a generation capacity of 1,125 MW for its Kolkata distribution business. Additionally, CESC has independent power plants at Haldia (600 MW) and Chandrapur (600 MW), along with renewable energy (174 MW wind projects). CESC has a distribution license within 335 sq. km of Noida and serves 82,000 consumers. The company also has distribution franchisees in three cities of Rajasthan (Kota, Bikaner, and Bharatpur – all are operational) and one city in Maharashtra (Malegaon – operations expected to start soon).

## Investment theme

CESC has stable earnings contributions from standalone operations with regulated power generation and distribution businesses getting assured RoE of 15.5% on generation assets and 16.5% for distribution assets. Reducing loss at Dhariwal Infrastructure and Rajasthan DF makes CESC an attractive investment proposition. CESC's valuation is also appealing.

## Key Risks

- ♦ Delay in signing of long-term PPA for Chandrapur plant.
- ♦ Sustained losses in DF for an extended period.

## Additional Data

### Key management personnel

Sanjiv Goenka	Chairman
Rajarshi Banerjee	Chief Financial Officer
Rabi Chowdhury	Managing Director – Generation
Debasish Banerjee	Managing Director – Distribution

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	5.8
2	HDFC Asset Management Co Ltd	4.1
3	Life Insurance Corp of India	3.4
4	ICICI Prudential Asset Management	2.8
5	Massachusetts Financial Services C	2.3
6	ICICI PRUDENTIAL INDIA OPP	2.3
7	Sprott Resource Lending Corp	2.2
8	UTI Asset Management Co Ltd	1.7
9	Vanguard Group Inc/The	1.9
10	BlackRock Inc	1.1

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

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