Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

CESC Ltd

Decent Q3; Renewable energy capex to drive growth

Power	Sharekhan code: CESC		
Reco/View: Buy ↔	CMP: **Rs. 148**	Price Target: **Rs. 170** ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

Company details

Market cap:	Rs. 19,588 cr
52-week high/low:	Rs. 158/71
NSE volume: (No of shares)	80.4 lakh
BSE code:	500084
NSE code:	CESC
Free float: (No of shares)	63.5 cr

Shareholding (%)

Promoters	52
FII	12
DII	21
Others	15

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	4.3	23.2	25.1	107.2
Relative to Sensex	0.2	20.0	15.8	85.1

Sharekhan Research, Bloomberg

Summary

- Consolidated PAT declined by 7% y-o-y to Rs. 415 crore due to higher operating and depreciation expenses which was compensated by a lower tax rate.
- Standalone PAT declined 22% y-o-y to Rs. 205 crore because of higher other expenses. Dhariwal Infrastructure/Crescent Power profit increased 22%/100% y-o-y to Rs. 94/24 crore respectively.
- Aggressive RE growth strategy with a plan of 3GW (capex of ~Rs. 12-13k cr) in the next 4-5 years makes good value proposition given the lower RE cost, strong growth prospects, and likely improvement in ESG rating. Its subsidiary has selected as successful bidder for setting-up of 10,500 TPA of green hydrogen production facility in India.
- We retain Buy on CESC with a revised PT of Rs. 170. Valuation of 1.5x FY26E P/BV is attractive, and stock offers a healthy dividend yield of ~3-4%. Renewable energy capex revival is going to drive the growth and turnaround of the distribution business would further aid the earnings.

CESC's Q4FY24 consolidated revenues/operating profit grew by 12%/3% y-o-y to Rs. 3959/Rs982 crore while its PAT declined by 7% y-o-y to Rs. 415 crore. The earnings decline was on the account of higher depreciation and standalone business PAT down 22% y-o-y to Rs. 205 crore despite 16% y-o-y rise in revenue. Other subsidiaries performed as follows – 1) Haldia Energy PAT increased by 10% y-o-y to Rs. 77 crore due to a higher PLF of 85% versus 67% in Q4FY23, 2) Dhariwal Infrastructure posted 22% y-o-y PAT growth to Rs. 94 crore reflecting increase in PLF to 91% versus 81% in the prior period, 3) Crescent Power PAT increased 100% y-o-y to Rs. 24 crore 4) Kota DF reported a higher loss of Rs. 8 crore vs Rs. 4 crore last year and Malegaon DF had a lower loss of Rs. 7 crore vs 11 crore in the prior period.

Key positives

- Dhariwal Infrastructure/Crescent power reported a PAT of Rs. 94/24 crore and a y-o-y growth of 22%/100% respectively.

Key negatives

- Kota and Malegaon DF's continued to report PAT losses on an increased revenue base.

Revision in estimates – We have fine-tuned our FY25-26 earnings estimate to factor in this quarter's performance.

Our Call

Valuation - Maintain Buy with a revised SoTP-based PT of Rs. 170: CESC is a play on RE capex revival and turnaround of the power distribution businesses and earnings are expected to gradually improve over the coming years. Valuation is attractive at 1.9x its FY2026E P/BV, and the stock offers a healthy dividend yield of 3-4%. Hence, we maintain Buy on CESC with a revised SoTP-based PT of Rs. 170.

Key Risks

1) Delay in addition of renewable energy capacity.

2) Sustained losses in DF for an extended period.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue	7,294	7,973	8,606	9,437	10,271
OPM (%)	15.3	14.8	8.9	15.5	15.5
PAT	816	830	775	918	1,030
% y-o-y growth	0.2	1.7	(6.6)	18.4	12.2
EPS (Rs.)	6.2	6.3	5.8	6.9	7.8
P/E (x)	24.0	23.6	25.3	21.4	19.1
P/B (x)	2.0	2.0	2.0	1.9	1.9
EV/EBITDA (x)	24.0	23.1	36.7	19.0	17.5
RoCE (%)	6.7	6.9	6.7	7.8	8.3
RoE (%)	8.2	8.3	7.8	9.2	10.1

Source: Company; Sharekhan estimates

Result summary

Generation business:

- In standalone business in FY24, Budge generating station led growth with sales of 5296MU (+8% y-o-y)and PLF increased to 87% from 81% last year. Southern Generating system sold 582MU vs 581MU in FY23.
- Haldia sold 4,221MU (+9% y-o-y) in FY24 with an increased PLF of 87% vs 80% last year. In Q4FY24, sales was 1,031 MU, growth of 30% y-o-y. Consequently, it reported a revenue in the quarter of Rs. 496 crore (+17% y-o-y) and PAT of Rs. 77 crore (+10% y-o-y).
- Dhariwal sold 4,112MU (+5% y-o-y) in FY24 with an increased PLF of 84% vs 80% last year. In Q4FY24, sales was 1,112 MU, growth of 15% y-o-y. It reported a revenue in the quarter of Rs. 517 crore (+9% y-o-y) and PAT of Rs. 94 crore (+22% y-o-y).

Distribution business:

- Noida power sold 3,136MU (+9% y-o-y) in FY24 with a reduced T&D loss of 7.48% vs 7.63% last year. In Q4FY24, sales was 713 MU, growth of 15% y-o-y. It reported a revenue in the quarter of Rs. 573 crore (+15% y-o-y) and PAT of Rs. 31 crore. (same y-o-y).
- In the year FY24, Kota losses decreased to Rs. 11 crore as compared to to Rs. 35 crore in FY23. Bikaner reported a good profit of Rs. 18 crore vs Rs. 7 crore in last year. In Malegaon, losses increased to Rs. 95 crore vs Rs. 77 crore last year.

Renewables and Green Hydrogen:

- Company to start the renewable business under the entity 'Purvah Green Power Limited. Aim to have a renewable portfolio of 3GW in the next few years.
- Entered into a bidding framework agreement with Inox Wind for 1500MW of turbines to be commissioned over 3-4 years.
- CESC Projects Limited, a subsidiary of the company has been selected as the successful bidder for setting up 10,500 TPA of Green Hydrogen Production facility.

Results (Standalone) Rs cr

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	**2,321**	**1,988**	**16.8**	**2,309**	**0.5**
Total expenditure	1,781	1,417	25.7	1,757	1.4
Operating profit	**540**	**571**	**(5.4)**	**552**	**(2.2)**
Other Income	33	56	(41.1)	22	50.0
Depreciation	183	122	50.0	180	1.7
Finance Cost	205	166	23.5	177	15.8
PBT	185	339	(45.4)	217	(14.7)
Tax	-20	76	(126.3)	47	(142.6)
Reported PAT	**205**	**263**	**(22.1)**	**170**	**20.6**
EPS (Rs.)	1.5	2.0	(22.1)	1.3	20.6
Margin (%)			**bps**		**Bps**
OPM (%)	23.3	28.7	-546	23.9	-64
NPM (%)	11.3	15.9	-459	9.3	196
Tax Rate (%)	(10.8)	22.4	-3,323	21.7	-3,247

Source: Company, Sharekhan Research

Financial performance of key subsidiaries Rs cr

Particulars	Revenue		PAT	
	Q4FY24	Q4FY23	Q4FY24	Q4FY23
Haldia Energy	496	425	77	70
Dhariwal Infrastructure	517	474	94	77
Crescent Power	58	54	24	12
Noida Power	573	496	31	32
Kota/Bharatpur/Bikaner	379	341	-2	4
Malegaon	186	161	-7	-11

Source: Company, Sharekhan Research

Result (Consolidated) Rs cr

Particulars	Q4FY24	Q4FY23	y-o-y (%)	Q3FY24	q-o-q (%)
Revenue	**3,959**	**3,543**	**11.7%**	**3,804**	**4.1%**
Expenses	2,977	2,589	15.0%	2,898	2.7%
Operating profit	**982**	**954**	**2.9%**	**906**	**8.4%**
Other income	73	106	-31.1%	57	28.1%
Depreciation	311	221	40.7%	303	2.6%
Interest	325	289	12.5%	296	9.8%
PBT	**419**	**550**	**-23.8%**	**364**	**15.1%**
Tax	4	105	-96.2%	63	-93.7%
PAT	**415**	**445**	**-6.7%**	**301**	**37.9%**
Minority interest	15	12	25.0%	20	-25.0%
PAT post MI	400	433	-7.6%	281	42.3%
EPS	3.0	3.3	-7.6%	2.1	42.3%
Margin (%)			**bps**		**bps**
OPM	24.8	26.9	-212	23.8	99
NPM	10.1	12.2	-212	7.4	272
Tax rate	1.0	19.1	-1814	17.3	-1635

Source: Company, Sharekhan Research

Generation business – operational performance

	Capacity (MW)	FY24		FY23		Q4 FY24		Q4 FY23	
		Sent Out Units (MU)	PLF %	Sent Out Units (MU)	PLF %	Sent Out Units (MU)	PLF %	Sent Out Units (MU)	PLF %
Budge Budge Generating Station	**750**	5,296	87%	4,910	81%	1,147	76%	1,249	83%
Southern Generating Station	**135**	582	54%	581	54%	47	17%	58	22%
Haldia Energy	**600**	4,221	87%	3,868	80%	1,031	85%	792	67%
Dhariwal Infrastructure	**600**	4,112	84%	3,913	80%	1,112	91%	970	81%
Crescent Power	**40**	299	96%	295	95%	80	103%	79	102%
Solar (TN)	**18**	26	21%	26	21%	7	22.5%	7	23%

Source: Company

Distribution business – operational performance

	FY24			FY23			Q4 FY24			Q4 FY23		
	Sales (MU)	T&D Loss %	Revenue (Rs. Crs)	Sales (MU)	T&D Loss %	Revenue (Rs. Crs)	Sales (MU)	T&D Loss %	Revenue (Rs. Crs)	Sales (MU)	T&D Loss %	Revenue (Rs. Crs)
CESC Kolkata	11,149	6.89%	8,729	10,362	7.27%	8,153	2,331	NA	1,847	2,155	NA	1,711
Noida Power	3,136	7.48%	2,478	2,870	7.63%	2,325	713	4.37%	573	619	4.71%	496
Kota DF	1329	14.25%	1,021	1432	14.83%	1,014	235	12.44%	189	298	12.31%	181
Bharatpur DF	295	10.16%	228	284	11.54%	212	59	9.86%	46	57	10.32%	36
Bikaner DF	775	12.47%	687	744	13.21%	628	156	10.52%	144	146	9.25%	124
Malegaon DF	830	39.1%	670	782	39.1%	608	213	38.3%	186	205	38.3%	161

Source: Company

Outlook and Valuation

■ Sector view - 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 would drive up PLFs for power-generation companies and better PLF incentive income. Additionally, receivables of power-generation companies won't be a problem as a good economic growth 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 FY2025E-FY2026E.

■ Valuation - Maintain Buy with a revised SoTP-based PT of Rs. 170

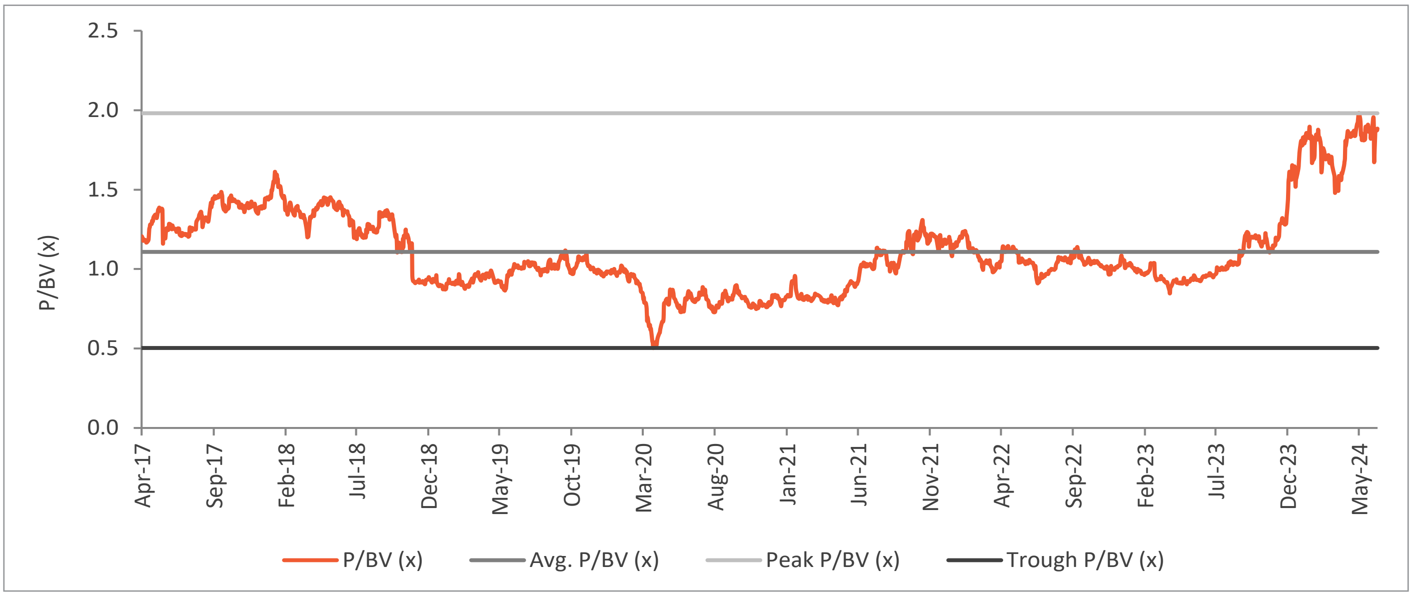
CESC is a play on RE capex revival and turnaround of the power distribution businesses and earnings are expected to gradually improve over the coming years. Valuation is attractive at 1.9x its FY2026E P/BV, and the stock offers a healthy dividend yield of 3-4%. Hence, we maintain Buy on CESC with a revised SoTP-based PT of Rs. 170.

SoTP-based PT of Rs. 170

Particulars	Value (Rs/share)	Methodology
Standalone business	78	10x FY26E EPS
Haldia	27	2.5x regulated equity of ~Rs. 1400 crore
Dhariwal	25	2.5x regulated equity of ~Rs. 1300 crore
Crescent Power	3	6.5x FY24 PAT for 67.8% stake
Noida	18	10x FY23 EBITDA for 72.73% stake
DF	6	2x Investments
Cash & Cash equivalent	13	
Price target	**170**	

Source: Company, Sharekhan Research

One-year forward P/BV (x) band



Source: Sharekhan Research

About 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 3.5 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 1.62 lakh consumers. The company also has distribution franchisees in three cities of Rajasthan (Kota, Bikaner, and Bharatpur) and one city in Maharashtra (Malegaon).

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 addition of renewable energy capacity.
- Sustained losses in DF for an extended period.

Additional Data

Key management personnel

Sanjiv Goenka	Chairman
Rajarshi Banerjee	Chief Financial Officer
Brajesh Singh	Managing Director – Generation
Vineet Sikka	Managing Director – Distribution

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	6.12
2	Life Insurance Corp of India	3.41
3	Quest Capital Markets Ltd	2.19
4	Sprott Resource Lending Corp	2.19
5	Franklin Resources Inc	2.01
6	UTI Asset Management Co Ltd	1.94
7	Massachusetts Financial Services C	1.91
8	Vanguard Group Inc/The	1.91
9	STEL Holdings Ltd	1.88
10	HDFC Asset Management Co Ltd	1.79

Source: Bloomberg

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 detoriating 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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