



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		↔	

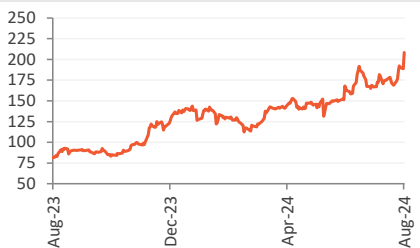
Company details

Market cap:	Rs. 27,592 cr
52-week high/low:	Rs. 210/82
NSE volume: (No of shares)	83.6 lakh
BSE code:	500084
NSE code:	CESC
Free float: (No of shares)	63.5 cr

Shareholding (%)

Promoters	52
FII	14
DII	23
Others	12

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	24.8	42.6	61.2	156.1
Relative to Sensex	24.3	34.2	49.4	130.2

Sharekhan Research, Bloomberg

CESC Ltd

Renewable energy capacity addition to drive growth

Power

Sharekhan code: CESC

Reco/View: Buy



CMP: Rs. 208

Price Target: Rs. 236



Upgrade



Maintain



Downgrade

Summary

- CESC's aggressive RE growth strategy with a plan to add 3.2GW (capex of ~Rs. 12-13k cr) in the next four years makes a good value proposition given the lower RE cost, strong growth prospects, and likely improvement in ESG rating. The long-term plan is to add 10GW capacity.
- The company has a framework agreement with Inox Wind and Suzlon Energy for wind turbine supply which is to be commissioned over next 2-4 years.
- Its subsidiary has been selected as a successful bidder for setting-up a 10,500 tonnes per annum of green hydrogen production facility in India.
- The company has implemented a 5.7% tariff hike for recovery of fuel and power purchase adjustment surcharge from June. We retain Buy on CESC with a revised PT of Rs. 236 on a SOTP basis. Renewable energy capex revival is going to drive the growth and turnaround of the distribution business would further aid the earnings.

In its Investor Day held recently, the company has guided for 3.2GW of renewable energy capacity addition in next four years and a long-term plan for 10GW addition. CESC has already applied for 2675MW of CTU connectivity which is to be granted by Aug/Sept 24. CESC Projects Limited, a subsidiary of the company, has been selected as a successful bidder to commission 10,500 MT/annum green hydrogen facility in three years. In Dhariwal Infrastructure, the rate for around 200MW of contracted capacity with Railways can be revised upwards and there is a scope to earn Rs. 100 crore extra out of it. The 5.7% tariff hike for recovery of fuel and power adjustment surcharge will also aid the earnings.

- ♦ **Renewable energy addition:** CESC has outlined a plan to add 3.2GW Renewable Energy capacity in the next four years with 1GW to come by FY26 and 1GW to be added every year thereafter. The long-term plan is to add 10GW capacity in 7-8 years. Some part of the 3.2GW capacity will be used for the Kolkata and Noida distribution business, reducing the need to buy power from external sources.
- ♦ **Earnings upside from Dhariwal:** Company's contract with Railways for around 200MW capacity comes to an end in March 2025. There is a possibility to revise the rate upwards and earn an extra Rs. 100 crore from here.
- ♦ **Recovery of fuel & power surcharge:** Company has implemented a 5.7% tariff hike for recovery of fuel and power surcharge adjustment surcharge from June 2024. The under recovery has been to the tune of Rs. 500 crore till now.

Our Call

Valuation - Maintain Buy with a revised SoTP-based PT of Rs. 236: Company plans to add 3.2GW of Renewable capacity in the next four years and a total of 10GW in 7-8 years. CESC is a play on RE capex addition and turnaround of the power distribution businesses which will lead to strong earnings growth. Company has also implemented a 5.7% tariff hike for recovery of fuel and power purchase adjustment surcharge from June. Hence, we maintain Buy on CESC with a revised SoTP-based PT of Rs. 236.

Key Risks

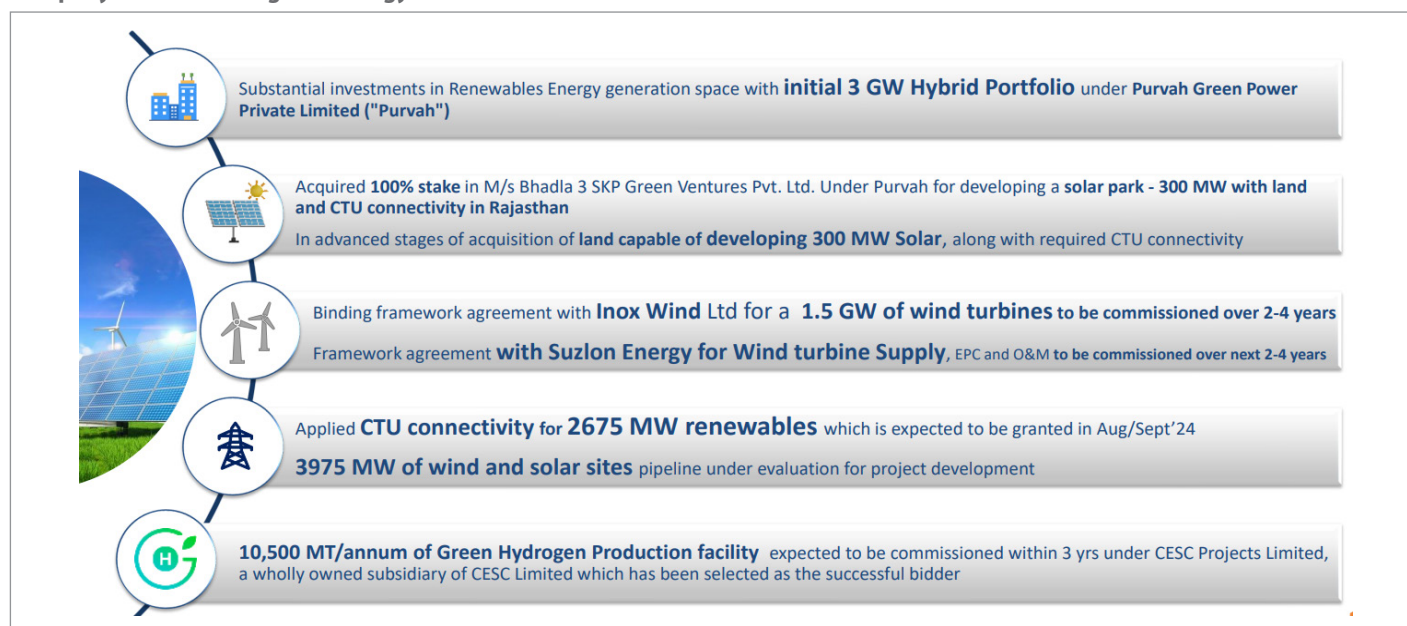
- 1) Delay in addition of renewable energy capacity.
- 2) Sustained losses in DF for an extended period.

Valuation (Standalone)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue	7,294	7,973	8,606	10,371	11,266
OPM (%)	15.3	14.8	8.9	14.5	14.5
PAT	816	830	775	964	1,077
% y-o-y growth	0.2	1.7	(6.6)	24.4	11.7
EPS (Rs.)	6.2	6.3	5.8	7.3	8.1
P/E (x)	33.8	33.2	35.6	28.6	25.6
P/B (x)	2.8	2.8	2.8	2.7	2.6
EV/EBITDA (x)	31.1	29.8	47.1	23.7	21.8
RoCE (%)	6.7	6.9	6.7	8.0	8.5
RoE (%)	8.2	8.3	7.8	9.6	10.4

Source: Company; Sharekhan estimates

Company's initiatives in green energy



Source: Company

Financial performance of key subsidiaries (Rs. Crore)

	FY'22			FY'23			FY'24		
	Revenue (Rs. Crs)	EBITDA (Rs. Crs)	PAT (Rs. Crs)	Revenue (Rs. Crs)	EBITDA (Rs. Crs)	PAT (Rs. Crs)	Revenue (Rs. Crs)	EBITDA (Rs. Crs)	PAT (Rs. Crs)
CESC Ltd (Consolidated)	12,820	3,930	1,405	14,555	3,734	1,397	15,544	4,134	1,447
CESC Ltd (Standalone)	7,479	2,019	816	8,153	2,144	830	8,729	2,381	775
Haldia Energy Ltd	2,251	1,017	333	1,987	747	261	2,000	787	254
Dhariwal Infrastructure Ltd	1,654	485	137	1,918	550	244	1,933	576	283
Crescent Power	125	39	15	177	55	33	208	112	80
Noida Power	2,055	259	150	2,325	292	161	2,478	332	169
Rajasthan DF	1,589	27	(30)	1,854	42	(25)	1,936	84	13
Malegaon DF	494	(32)	(57)	608	(67)	(77)	670	(83)	(95)

Source: Company

Generation business – operational performance

	Capacity (MW)	FY19		FY20		FY21		FY22		FY23		FY24	
		Sent Out Units (MU)	PLF %	Sent Out Units (MU)	PLF %	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	5,552	91.5%	5,352	88%	5,003	82.5%	5,132	84.7%	4,910	81.1%	5,296	87%
Southern Generating Station	135	257	24%	307	29%	82	8%	149	14%	581	54%	582	54%
Haldia Energy	600	4,240	87.8%	4,085	84.1%	3,895	80.4%	3,939	81.4%	3,868	80.3%	4,221	87%
Dhariwal Infrastructure	600	2,956	61.4%	3,102	64.1%	3,880	80.5%	3,676	75.9%	3,913	80.5%	4,112	84%
Crescent Power	40	292	94%	171	56%	307	99%	308	99%	295	95%	299	96%
Solar (TN)	18	26	20%	27	21%	24	19%	25	20%	26	21%	26	21%

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 good economic growth would result in the timely receipt of dues from customers.

■ Company outlook - Steady performance by standalone biz, turnaround of subsidiaries and RE addition to improve consolidated earnings

Growth in earnings from standalone operations given strong power demand, lower losses at distribution franchisees led by lower T&D losses, higher utilisation at Dhariwal Infrastructure and potential turnaround of Rajasthan/Malegaon DF are expected to improve the consolidated earnings of CESC over FY2025E-FY2026E. Also, addition of 3.2GW of Renewable Energy capacity over next 4 years will aid the earnings.

■ Valuation - Maintain Buy with a revised SoTP-based PT of Rs. 236

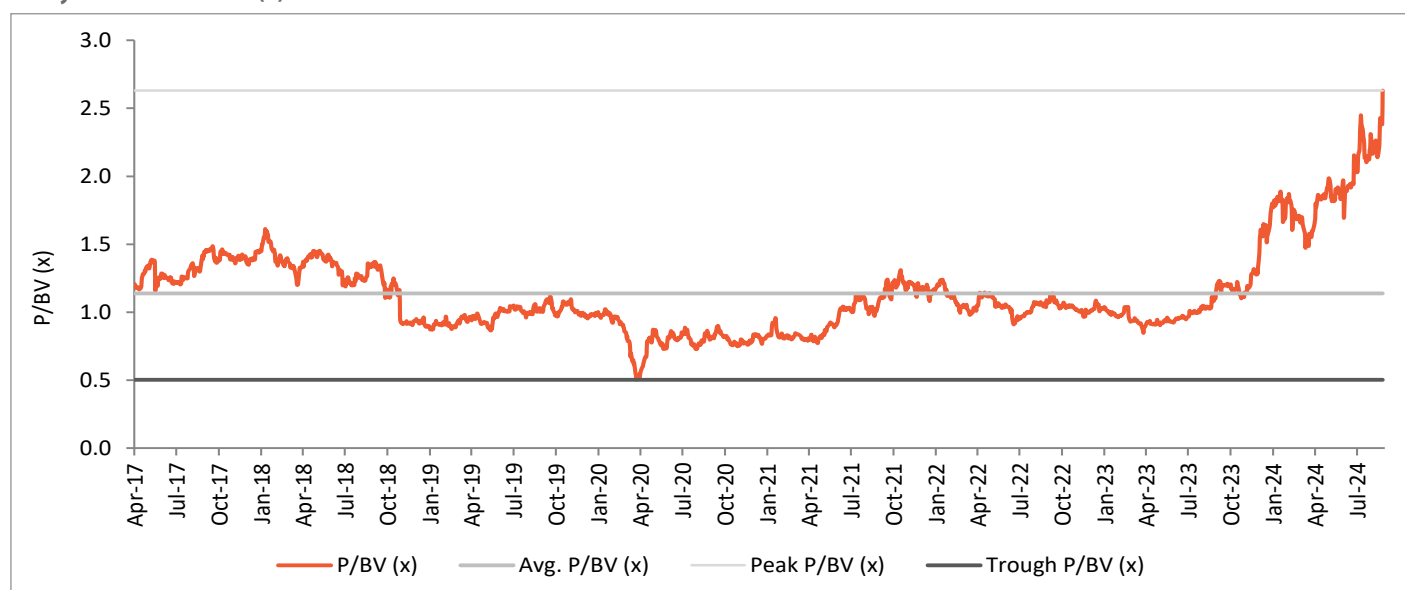
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SoTP-based PT of Rs. 236

Particulars	Value (Rs/share)	Methodology
Standalone business	146	18x FY26E EPS
Haldia	27	3x regulated equity of ~Rs. 1200 crore
Dhariwal	23	3x regulated equity of ~Rs. 1000 crore
Crescent Power	3	7x FY24 PAT for 67.8% stake
Noida	18	10x FY24 EBITDA for 72.73% stake
DF	6	2x Investments
Cash & Cash equivalent	13	
Price target	236	

Source: 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 3.6 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). 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. Dhariwal Infrastructure and Rajasthan DF becoming profitable are aiding the growth of the company. CESC's valuation is also appealing. .

Key Risks

- 1) Delay in addition of renewable energy capacity.
- 2) 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	6.67
2	Life Insurance Corp of India	3.41
3	Franklin Resources Inc	2.33
4	Sprott Resource Lending Corp	2.19
5	Quest Capital Markets Ltd	2.19
6	Massachusetts Financial Services C	1.97
7	STEL Holdings Ltd	1.88
8	HDFC Asset Management Co Ltd	1.88
9	Vanguard Group Inc/The	1.86
10	UTI Asset Management Co Ltd	1.73

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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