MIRAE ASSET Sharekhan

Stock Update

Result Update

CESC Ltd

Soft Q3; Renewable energy addition to drive growth

Power	Sharekhan code: CESC		
Reco/View: Buy ↔	CMP: **Rs. 152**	Price Target: **Rs. 195** ↓	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

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		↑	

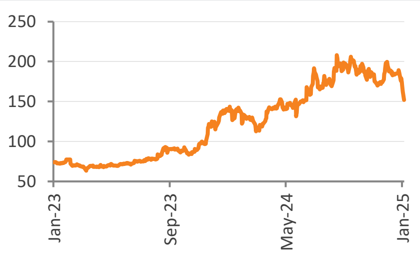
Company details

Market cap:	Rs. 20,151 cr
52-week high/low:	Rs. 213 / 110
NSE volume: (No of shares)	67.8 lakh
BSE code:	500084
NSE code:	CESC
Free float: (No of shares)	63.5 cr

Shareholding (%)

Promoters	52.1
FII	13.3
DII	22.6
Others	12.0

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-18.9	-18.0	-17.1	8.1
Relative to Sensex	-11.9	-11.8	-11.8	2.9

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- CESC's consolidated PAT of Rs. 265 crore decreased 5.7% y-o-y with increase in losses in Malegaon and compensated a little by rise in Haldia and Dhariwal profits.
- Standalone PAT rose 1.2% y-o-y to Rs. 172 crore with unit sales of 2,423MU (+1.6% y-o-y). Dhariwal Infrastructure/Haldia energy profit increased 21.4%/16.7% y-o-y to Rs. 51/56 crore respectively with higher generation while Malegaon losses increased to Rs. 38 crore from Rs. 27 crore last year.
- Aggressive RE growth strategy with a plan of 3.2GW (capex of ~Rs. 12-13k cr) in the next 4-5 years is a good value proposition given the lower RE cost and strong growth prospects. Company is also setting-up a 10,500 tonnes per annum of green hydrogen production facility.
- We retain Buy on CESC with an revised PT of Rs. 195 on a SOTP basis. Renewable energy capex is going to drive the growth and turnaround of the distribution business would further aid the earnings.

CESC's Q3FY25 consolidated revenue/operating profit/profit grew by 1.5%/ 0.4%/ -5.7% y-o-y to Rs. 3,861/ 910 / 265 crore. The earnings were impacted because of higher Malegaon losses and weak standalone result. Key subsidiaries performed as follows – 1) Standalone PAT was up only 1.2% y-o-y to Rs. 172 crore with weak unit sales 2) Haldia Energy PAT increased 16.7% y-o-y to Rs. 56 crore as the PLF increased to 91% from 73% last year 3) Dhariwal Infrastructure posted a 21.4% y-o-y PAT growth to Rs. 51 crore with PLF of 79% vs 64% last year 4) Noida distribution business profit of Rs. 44 crore showed a little decline of 8% y-o-y 5) Malegaon losses rose to Rs. 38 crore from a loss of Rs. 27 crore last year 6) The other DFs had almost flattish PAT y-o-y. Company is going to commission total capacity of 3.2GW- 1.5GW solar and 1.7GW wind by FY29, of which 1.2GW is already under implementation. The company has declared an interim dividend of Rs. 4.5/share.

Key positives

- Dhariwal Infrastructure/Haldia Energy reported a PAT of Rs. 51/56 crore and a y-o-y growth of 21.4%/16.7% respectively.

Key negatives

- Malegaon DF continued to report PAT losses on an higher revenue base.
- Standalone business had a weak 1.2% PAT growth.

Management Commentary

- Company is going to setup 3.2GW of renewable capacities by FY29 in Phase 1– 1.5GW solar and 1.7GW wind. Phase 2 will take the total capacity to 10GW.
- Currently, 1.2GW capacity is already under implementation with power offtake tied up. It will get commissioned by FY27 and would be able to generate an annual revenue of Rs. 1,200 crore.
- 3.3GW of wind projects are currently in EPC mode with Inox Wind, Suzlon and Ecoren.
- In solar, 2,100 acres of land has been acquired and 10,000 acres is under evaluation stages for acquisition.
- CESC Projects Limited, a subsidiary of the company is going to setup up 10,500 TPA of Green Hydrogen Production facility within three years.

Revision in earnings estimates – We have cut our earnings estimates a little to reflect the quarter's performance.

Our Call

Valuation – Maintain Buy with a revised SoTP-based PT of Rs. 195: CESC is a play on the strong power demand, renewable energy capacity addition and turnaround of the power distribution businesses. Renewable energy capacity of 3.2GW is be commissioned by FY29. Company has also implemented a 5.7% tariff hike for recovery of fuel and power purchase adjustment surcharge from June which will aid the cash flow. Hence, we maintain Buy on CESC with a revised SoTP-based PT of Rs. 195.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,973	8,606	9,657	10,553	11,153
OPM (%)	14.8	8.9	14.9	15.0	15.2
PAT	830	775	903	1,027	1,122
% y-o-y growth	1.7	(6.6)	16.5	13.8	9.3
EPS (Rs.)	6.3	5.8	6.8	7.7	8.5
P/E (x)	24.3	26.0	22.3	19.6	18.0
P/B (x)	2.0	2.0	2.0	1.9	1.9
EV/EBITDA (x)	23.5	37.4	19.7	17.9	16.6
RoCE (%)	6.9	6.7	7.7	8.3	8.6
RoE (%)	8.3	7.8	9.0	10.0	10.6

Source: Company; Mirae Asset Sharekhan estimates

Results (Consolidated) Rs cr

Particulars	Q3FY25	Q3FY24	Y-o-Y (%)	Q2FY25	Q-o-Q (%)
Revenue	**3,861**	**3,804**	**1.5%**	**4,819**	**-19.9%**
Expenses	2,951	2,898	1.8%	3,804	-22.4%
Operating profit	**910**	**906**	**0.4%**	**1015**	**-10.3%**
Other income	96	57	68.4%	70	37.1%
Depreciation	305	303	0.7%	295	3.4%
Interest	339	296	14.5%	328	3.4%
PBT	**362**	**364**	**-0.5%**	**462**	**-21.6%**
Tax	80	63	27.0%	89	-10.1%
PAT	**282**	**301**	**-6.3%**	**373**	**-24.4%**
Minority interest	17	20	-15.0%	20	-15.0%
PAT post MI	**265**	**281**	**-5.7%**	**353**	**-24.9%**
EPS	2.0	2.1	-5.7%	2.7	-24.9%
Margin (%)			**bps**		**bps**
OPM	23.6	23.8	-25	21.1	251
NPM	6.9	7.4	-52	7.3	-46
Tax rate	22.1	17.3	479	19.3	284

Source: Company; Mirae Asset Sharekhan Research

Financial performance of key subsidiaries Rs cr

Particulars	Revenue			PAT		
	Q3FY25	Q3FY24	Y-o-Y (%)	Y-o-Y (%)	Q1FY25	Y-o-Y (%)
CESC Standalone	1987	1841	7.9	172	170	1.2
Haldia Energy	520	428	21.5	56	48	16.7
Dhariwal Infrastructure	451	370	21.9	51	42	21.4
Crescent Power	55	53	3.8	15	21	-28.6
Noida Power	615	557	10.4	44	48	-8.3
Kota/Bharatpur/Bikaner	437	397	10.1	3	0	-
Malegaon	191	170	12.4	-38	-27	40.7

Source: Company; Mirae Asset Sharekhan Research

Generation business – operational performance

Particulars	Capacity (MW)	Q3FY25		Q3FY24		9M FY25		9M FY24	
		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	1102	72.30%	1,319	86.20%	3,826	83.90%	4,150	90.80%
Southern Generating Station	135	77	28.70%	98	36%	386	47.60%	535	66.20%
Haldia Energy	600	1117	90.90%	893	72.80%	3,285	89.60%	3,189	87.20%
Dhariwal Infrastructure	600	976	78.90%	783	63.70%	3,273	88.20%	3,000	81.60%
Crescent Power	40	78	100.50%	78	99%	217	92.80%	219	93.50%
solar (TN)	18	5	16.50%	5	16.20%	18	19.80%	18.6	19.90%

Source: Company; Mirae Asset Sharekhan Research

Distribution business – operational performance

Particulars	Q3 FY25			Q3 FY24			9M FY25			9M FY24		
	Sales (MU)	T&D Loss %	Revenue (Rs cr.)	Sales (MU)	T&D Loss %	Revenue (Rs cr.)	Sales (MU)	T&D Loss %	Revenue (Rs cr.)	Sales (MU)	T&D Loss %	Revenue (Rs cr.)
CESC Kolkata	2,423	-	1,987	2,383	-	1,841	9,237	7.98%	7,552	8,817	7.98%	6,882
Noida Power	776	6.20%	615	669	6.60%	557	2,845	8.30%	2,172	2,423	8.40%	1,905
Kota DF	260	15.70%	221	259	15.60%	203	1055	14.90%	877	1,093	14.70%	832
Bharatpur DF	62	9.50%	50	59	8.80%	46	256	10.10%	206	236	10.30%	182
Bikaner DF	175	13.50%	166	157	12.70%	148	701	13.20%	636	619	12.90%	544
Malegaon DF	222	37.40%	191	218	36.70%	170	623	40%	542	617	39.40%	484

Source: Company; Mirae Asset Sharekhan Research

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 – Improvement in power demand and turnaround of subsidiaries to improve consolidated earnings

Growth in standalone business with improving power demand, lower losses at distribution franchisees led by lower T&D losses, renewable capacity addition and potential turnaround of Rajasthan/Malegaon DF are expected to improve the consolidated earnings of CESC over FY2025E-FY2027E.

■ Valuation – Maintain Buy with a revised SoTP-based PT of Rs. 195

CESC is a play on the strong power demand, renewable energy capacity addition and turnaround of the power distribution businesses. Renewable energy capacity of 3.2GW is be commissioned by FY29. Company has also implemented a 5.7% tariff hike for recovery of fuel and power purchase adjustment surcharge from June which will aid the cash flow. Hence, we maintain Buy on CESC with a revised SoTP-based PT of Rs. 195.

SoTP-based PT of Rs. 195

Particulars	Value (Rs/share)	Methodology
Standalone business	113	14x FY27E EPS
Haldia	27	3x regulated equity of ~Rs. 1200 crore
Dhariwal	16	2x regulated equity of ~Rs. 1000 crore
Crescent Power	2	7x FY25 PAT for 67.8% stake
Noida	18	10x FY25 EBITDA for 72.73% stake
DF	6	2x Investments
Cash & Cash equivalent	13	
Price target	**195**	

Source: Company; Mirae Asset 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. Malegaon DF becoming profitable will also aid the growth of the company. CESC's valuation is also reasonable.

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	7.15
2	Life Insurance Corp of India	3.41
3	Sprott Resource Lending Corp	2.19
4	Quest Capital Markets Ltd	2.19
5	STEL Holdings Ltd	1.88
6	Vanguard Group Inc/The	1.88
7	HDFC Asset Management Co Ltd	1.84
8	Massachusetts Financial Services C	1.64
9	Franklin Resources Inc	1.61
10	Nippon Life India Asset Management	1.44

Source: Bloomberg

Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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