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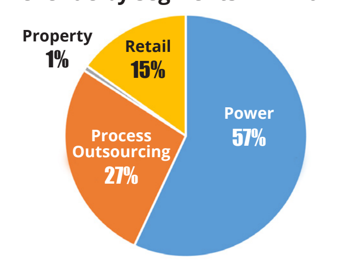
VALUE PICK
CHASING VALUE, NOT PRICES

September 2016

Company Name	:	**CESC**
BSE Code	:	**500084**
Time Duration	:	**1 year**
CMP	:	**₹638 (as on 12 September, 2016)**
Target Price	:	**₹803**

The value pick for the month of September is CESC- from the group of RP-Sanjiv Goenka. It is a private sector utility company and distributes electricity to Kolkata and adjoining areas. It owns and operates four power stations with 1,125 MW power. Company also operates in retail space (under Spencer's brand), properties and BPO. We believe the company will see traction in its power business with more PPA contracts and expansion in renewable segment. Also, the retail Spencer's business is expected to break-even by end of FY17E which should improve the margins. Company has been able to maintain margins at 19% level for last five years and witnessed margin improvement by 10% in FY16 to 26%. On consolidated basis, the P/E of 19x on FY17 earnings looks attractive. Hence, we recommend a buy with 26% upside over a year.

Revenue by segments in FY16



Power sector: We see that power sector contributes 57% to revenue and 87% to profits. This segment has grown at a CAGR of 11.5% over FY11-16. It has three generating stations – Budge Budge, Southern and Titagarh, which cumulatively produces 1,1,25MW and has average plant load factor of 70.72%. Budge Budge station has highest efficiency among power stations. In addition to this, company has added thermal stations in Chandrapur and Haldia, cumulatively generating 600MW. Also, company has been expanding its renewable foot print.

We expect this sector to grow at 9% in FY17E. This will be driven by the Power Purchase Agreement (PPA) for Chandrapur facility with the Greater Noida Power Company and Tamil Nadu Generation and Distribution Corporation (TANGENCO). Additionally, company is in advance level talks with another power distributor for 150Mw of power. This is expected to improve utilisation of Chandrapur to 75% and will flow into revenue by Q4FY17E. This charge will be based on cost plus tariff basis which will boost the realisations and impact positively the bottomline by ₹400 crore.

Company is well backward integrated as it sources 50% of coal requirement from captive mines. It has recently won a bid for Sarisatolli coal block at less than fuel cost recovery. This might negatively impact the margins by ₹50 crore as management expects to recover Rs190 crore by merchant sale of coal. To minimise the impact of this, company has been procuring more power from Haldia plant.

Retail: Company operates through brand Spencer and has 118 stores. Like to like sales growth has been close to 8% and company has been seeing improving realisation in average revenue per square feet. We expect this loss making unit will reach break -even due to closure of few stores and adding of hypermarket format stores.

Business process management (BPM): By the stake purchase by SpenLiq, a wholly owned subsidiary of CESC in FirstSource solutions, it entered into the BPM business. This segment contributes 27% to revenue and 15% to the EBIT line. Company has been able to lift margins from 9% to 11% over FY13 to FY16. We see that there will be pressure in this segment. Revenue growth will be 8% with margins remaining range bound.

Financial Performance: CESC has reported robust financial numbers in FY16. The company's revenue has grown at CAGR of 19.2 per cent over FY11-16. CESC's topline has risen to 8 per cent in FY16 on a yearly basis led by power and property sector. The company has reduced its expenses by 2 per cent, which has aided EBITDA to grow by 49 per cent to ₹3165 crore in FY16 as compared to FY15. Company's EBITDA margin also has expanded by 734 bps to 27 per cent in FY16 vs FY15. PAT of the company has grown by a whopping 66 per cent to ₹496 crore in FY16 on a yearly basis. We expect with improving cash flows and phasing out of capex, D/E will moderate to 2.0x by 2018 vs 2.6x in FY16

Valuation : CESC with 2016 EPS of 27.64 trading at P/E of 23.09x looks attractive as compared to its peers like TATA Power (P/E of 36.83x). Company has healthy ROCE of 12.01 per cent. Company also has striking P/B of 1.53x, which makes it attractive. So we recommend our investors to **BUY** this scrip with target price of Rs 803 over a period of one year.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	11899.5	11066.6	10110.9	7556.7	5891.7
Total Income	12118.6	11226.9	10296.3	7738.8	6059.5
Total Expenditure	8952.7	9095.0	8421.5	6258.2	4890.5
PBIDT	3165.9	2131.9	1874.8	1480.6	1169.1
PAT	496.5	298.9	572.9	480.9	244.5
Dividend %	100.0	90.0	80.0	70.0	50.0
Adj. EPS(Rs)	27.6	15.0	39.4	36.8	19.7