

BSE SENSEX	S&P CNX
37,931	11,407
Bloomberg	CESC IN
Equity Shares (m)	133
M.Cap.(INRb)/(USDb)	87.7 / 1.2
52-Week Range (INR)	820 / 622
1, 6, 12 Rel. Per (%)	-8/-10/-24
12M Avg Val (INR M)	462
Free float (%)	50.1

Financials & Valuations (INR b)

Y/E Mar	FY19	FY20E	FY21E
Sales	106.6	100.9	103.8
EBITDA	33.9	31.9	32.6
NP	11.8	11.2	12.3
EPS (INR)	89.0	84.1	92.5
EPS Gr. (%)	43.3	-5.6	10.1
BV/Sh. (INR)	674.7	734.8	799.8
RoE (%)	13.6	11.9	12.1
RoCE (%)	9.1	8.7	8.9
P/E (x)	7.4	7.9	7.1
P/BV (x)	1.0	0.9	0.8

Estimate change

TP change

Rating change

CMP: INR661 TP: INR841(+27%)
Buy
Dhariwal turning around, DF operations improving
FCF generation increasing rapidly; Re-iterate Buy

FY19 consol. adj. PAT grew 43% YoY to INR11.8b (consol. numbers are reported annually) v/s our est. of INR10.1b. The strong performance was driven by sharp reduction in losses at Dhariwal and lower losses in distribution franchisee (DF).

- **Standalone (S/A):** PAT grew ~8% YoY to INR9.4b. T&D losses were lower ~70bp YoY to 9% (down ~260bp in the last three years). Sales were flat at 10.4BU due to weak demand and weather conditions. Capitalization is estimated at INR3.8b, implying regulated equity increase of ~3% YoY in FY19.
- **Haldia:** PAT was broadly unchanged at INR3.2b as it continues to benefit from favorable efficiency norms. Haldia continues to earn >20% core RoE.
- **Dhariwal:** PAT loss halved from ~INR2b in FY18 to ~INR0.9b in FY19 benefiting from short-term PPAs and tolling arrangements. PLF increased 16pp YoY to 61%.
- **DF:** EBITDA loss reduced from INR1b in FY18 to INR0.2b in FY19 on lower T&D losses. PAT loss halved from INR1.2b in FY18 to INR0.6b in FY19. For 4QFY19, standalone PAT grew 9.2% YoY to INR3.1b.

For 4QFY19, S/A PAT grew 9% YoY to INR3.1b (6% beat). Sales were down 4% YoY to 2.3BU. Realization was down ~4% YoY to INR7.25/kWh.

FCF generation increasing; Re-iterate Buy

Dhariwal operations are turning around. The tolling arrangement with Maharashtra is being offered for one year (with 1-year extension provision) against nine months earlier. Dhariwal is well placed to secure this contract again. DF operations are turning around faster than expected as the company is gaining better understanding of circles and leveraging its experience in Kolkata. CESC's existing distribution business is high RoE and delivers steady growth. Generation assets are creating healthy FCF. Untied generation capacity and scale-up of DFs have the potential to boost earnings. Dividend payout has increased ~1.5x to INR17.5/share in FY19 on strong FCF generation. We have raised consol. PAT est. by 5%/2% for FY20/21E on lower losses at DFs. The stock trades attractively at ~8x/7x FY20/21E P/E even as visibility of earnings at Dhariwal and DFs improve. Our estimates are building in tightening of norms at Haldia and S/A. We value the stock at 10x FY20E P/E at INR841/share. Re-iterate **Buy**.

Quarterly Performance (Standalone)

Y/E March	FY18				FY19				FY18	FY19	FY19	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales	21,840	20,880	17,060	18,010	21,650	22,200	17,070	16,620	77,858	77,540	19,026	-13
EBITDA	6,070	5,050	3,140	2,090	4,960	5,110	2,010	1,500	16,463	13,580	5,010	6
Change (%)	18.8	-14.6	-0.3	2.5	-18.3	1.2	-36.0	-28.2	1.6	-17.5	89.0	
Depreciation	1,050	1,080	1,090	1,090	1,100	1,110	1,090	1,030	4,256	4,330	1,119	-8
Interest	1,210	1,260	1,210	1,160	1,200	1,200	1,170	1,090	4,839	4,660	1,190	-8
Other Income	400	350	430	510	200	280	450	720	1,679	1,650	545	32
Regulatory (inc)/exp	1,940	-90	-700	-3,240	500	-370	-2,000	-3,830	-2,092	-5,700	0	
PBT	2,270	3,150	1,970	3,590	2,360	3,450	2,200	3,930	11,139	11,940	3,246	21
Tax	490	680	430	760	520	740	480	840	2,377	2,570	338	
Effective Tax Rate (%)	21.6	21.6	21.8	21.2	22.0	21.4	21.8	21.4	21.3	21.5	10.4	
Reported PAT	1,780	2,470	1,540	2,830	1,840	2,710	1,720	3,090	8,762	9,370	2,907	6
Change (%)	2.3	2.1	1.3	-4.1	3.4	9.7	11.7	9.2	1.9	6.6	-0.4	

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Exhibit 1: Standalone – operating metrics

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Units sold	1,994	2,853	2,759	2,345	2,393	2,840	2,964	2,295	2,291
Change YoY	-4.9	2.6	4.0	12.2	20.0	-0.5	7.4	-2.1	-4.3
Realization	7.9	7.7	7.6	7.3	7.5	7.6	7.5	7.4	7.3
T&D loss	7.9	11.1	10.8	10.8	5.5	9.7	9.7	9.8	6.6
Gross generation	1,215	1,736	1,738	1,357	1,506	1,709	1,731	1,365	1,493
Change YoY	-9.3	-9.2	1.3	16.0	24.0	-1.6	-0.4	0.6	-0.9
Generation fuel cost	2.4	2.2	2.2	2.3	2.2	2.3	2.5	2.5	2.6
Power purchase	1,049	1,605	1,509	1,322	1,202	1,608	1,602	740	
Power purchase cost	5.5	4.8	5.1	5.5	5.7	5.2	5.1	10.0	

Source: MOFSL, Company

Exhibit 2: PAT break-up – INR m

Adj. PAT	FY18	FY19	FY20E	FY21E
Consolidated	8,276	11,840	11,182	12,309
Standalone	8,647	9,370	8,992	9,315
Dist. Franchisee (DFs)	-1,204	-575	-363	128
Noida (49% stake)	497	690	594	523
Haldia	3,131	3,240	2,298	1,726
Dhariwal	-1,986	-930	-579	408
Crescent	322	276	302	333
Surya Vidyut (RE)	51	65	111	156
Others	-1,183	-296	-174	-279
Au Bon	-213			
New Rising (sports)	-427			
Others	-543	-296	-174	-279

Source: MOFSL, Company

Financials and Valuations

Income Statement								(INR Million)	
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E	
Net Sales	101,109	110,666	121,242	83,634	102,749	106,640	100,918	103,791	
Change (%)	33.8	9.5	9.6	-31.0	22.9	3.8	-5.4	2.8	
Total Expenses	84,883	91,721	91,450	55,789	72,757	72,770	68,993	71,180	
EBITDA	16,226	18,945	29,792	27,845	29,991	33,870	31,925	32,611	
% of Net Sales	16.0	17.1	24.6	33.3	29.2	31.8	31.6	31.4	
Deprn. & Amortization	4,714	5,889	7,665	7,148	7,515	7,640	7,849	8,043	
EBIT	11,512	13,056	22,128	20,697	22,477	26,230	24,076	24,568	
Net Interest	5,660	9,565	14,943	13,724	13,030	13,250	12,807	12,067	
Other income	1,734	1,490	2,637	2,300	2,520	2,040	2,795	2,844	
PBT before EO	7,585	4,981	9,821	9,273	11,967	15,020	14,064	15,345	
EO expense	0	0	40	0	0	0	0	0	
PBT after EO	7,585	4,981	9,781	9,273	11,967	15,020	14,064	15,345	
Tax	1,856	1,992	3,130	3,210	3,562	3,730	3,334	3,401	
Rate (%)	24.5	40.0	32.0	34.6	29.8	24.8	23.7	22.2	
Reported PAT	5,729	2,989	6,651	6,063	8,405	11,290	10,730	11,944	
Minority and Associates	-813	-1,004	-666	-710	-129	550	451	365	
Adjusted PAT	4,916	1,985	6,024	5,354	8,276	11,840	11,182	12,309	
Change (%)	17.7	-59.6	203.5	-11.1	54.6	43.1	-5.6	10.1	

Note: Post demerger from FY17

Balance Sheet								(INR Million)	
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E	
Share Capital	1,256	1,332	1,332	1,332	1,332	1,330	1,330	1,330	
Reserves	55,094	58,958	104,705	104,895	82,870	88,410	96,400	105,038	
Net Worth	56,350	60,290	106,037	106,227	84,202	89,740	97,730	106,368	
Minority Interest	9,079	10,004	10,920	12,101	694	820	963	1,121	
Total Loans	119,164	142,020	148,676	155,994	145,778	139,415	131,364	123,019	
Deferred Tax Liability	332	832	38,307	38,873	36,410	39,400	39,400	39,400	
Capital Employed	184,925	213,146	303,939	313,194	267,083	269,375	269,457	269,908	
Gross Block	185,350	258,955	253,136	267,642	268,271	273,866	282,032	290,202	
Less: Accum. Deprn.	65,631	72,685	10,071	1,380	29,736	37,376	45,225	53,268	
Net Fixed Assets	119,719	186,270	243,065	266,262	238,535	236,490	236,807	236,934	
Capital WIP	53,117	4,102	5,049	3,919	2,166	1,610	1,610	1,610	
Goodwill	25,392	22,417	22,500	0	0	0	0	0	
Investments	737	735	3,537	4,224	6,673	6,730	7,324	7,847	
Curr. Assets	50,798	65,858	93,781	104,322	82,499	89,850	87,889	88,297	
Inventories	5,383	6,625	6,967	8,454	5,826	7,000	7,056	7,202	
Account Receivables	15,302	17,066	14,132	15,596	15,374	17,390	19,240	19,674	
Cash and Bank Balance	12,422	16,453	17,894	22,931	17,003	15,440	11,821	11,648	
Others	17,692	25,714	54,788	57,340	44,296	50,020	49,773	49,773	
Curr. Liability & Prov.	64,838	66,235	63,993	65,533	62,791	65,305	64,173	64,780	
Account Payables	5,318	6,007	5,951	7,890	6,907	6,780	4,580	4,709	
Provisions & Others	59,521	60,228	58,041	57,642	55,884	58,525	59,594	60,071	
Net Curr. Assets	-14,040	-377	29,789	38,789	19,708	24,545	23,716	23,517	
Appl. of Funds	184,925	213,146	303,939	313,194	267,083	269,375	269,457	269,908	

E: MOFSL Estimates

Financials and Valuations

Ratios

	2014	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	39.1	14.9	45.2	40.2	62.1	89.0	84.1	92.5
Cash EPS	76.7	59.1	102.8	93.8	118.5	146.5	143.1	153.0
BV/Share	448.6	452.6	796.0	797.4	632.0	674.7	734.8	799.8
DPS	8.0	9.0	10.0	10.0	12.0	17.5	20.0	23.0
Payout (%)	20.4	60.4	22.1	24.9	19.3	19.7	23.8	24.9
Valuation (x)								
P/E	12.8	40.4	10.5	20.9	10.6	7.4	7.9	7.1
Cash P/E	6.5	10.2	4.6	9.0	5.6	4.5	4.6	4.3
P/BV	1.1	1.3	0.6	1.1	1.0	1.0	0.9	0.8
EV/EBITDA	11.0	11.4	6.9	9.2	7.3	6.3	6.5	6.1
Dividend Yield (%)	1.6	1.5	2.1	1.2	1.8	2.6	3.0	3.5
Return Ratios (%)								
RoE	9.1	3.4	7.2	5.0	8.7	13.6	11.9	12.1
RoCE (post-tax)	6.7	6.3	8.4	6.4	7.4	9.1	8.7	8.9
RoIC (post-tax)	10.9	6.0	7.1	5.0	6.0	8.1	7.4	7.7
Working Capital Ratios								
Fixed Asset Turnover (x)	0.8	0.6	0.5	0.3	0.4	0.5	0.4	0.4
Asset Turnover (x)	0.5	0.5	0.4	0.3	0.4	0.4	0.4	0.4
Debtor (Days)	55	56	43	68	55	60	70	69
Inventory (Days)	19	22	21	37	21	24	26	25
Payable (Days)	19	20	18	34	25	23	17	17
Leverage Ratio (x)								
Net Debt/MW	29	29	29	29	28	26	24	24
Net Debt/EBITDA	6.6	6.6	4.4	4.8	4.3	3.7	3.7	3.4
Debt/Equity	1.6	1.8	1.1	1.1	1.5	1.4	1.2	1.0

Note: Historical return ratios are not comparable on revaluation of B/S under Ind-AS w.e.f. FY16

Cash flow statement

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
EBITDA	16,226	18,945	29,792	27,845	29,991	33,870	31,925	32,611
WC	7,301	-10,274	-5,805	-918	-6,336	-3,410	-2,790	26
Others	1,125	2,729	4,128	3,081	4,393	0	0	0
Direct taxes (net)	-2,141	-2,506	-3,311	-3,457	-3,727	-3,730	-3,334	-3,401
CF from Op. Activity	22,511	8,895	24,804	26,552	24,321	26,730	25,801	29,236
Capex	-34,209	-19,509	-12,675	-14,720	-8,944	-8,163	-8,166	-8,170
Interest income	670	550	329	375	311	0	0	0
Investments	0	-369	-309	-634	568	0	0	0
Others	912	1,155	1,102	1,064	-7,695	2,276	2,795	2,844
CF from Inv. Activity	-32,627	-18,172	-11,554	-13,915	-15,760	-5,888	-5,370	-5,326
Share capital	37	5,021	117	158	22	0	0	0
Borrowings	19,282	20,980	6,390	8,622	854	-6,363	-8,051	-8,345
Finance cost	-11,134	-11,978	-15,303	-15,036	-13,828	-13,250	-12,807	-12,067
Dividend	-1,021	-1,168	-3,009	-1,599	-1,902	-2,793	-3,192	-3,671
Others	1,061	454	-5	256	365	0	0	0
CF from Fin. Activity	8,225	13,309	-11,809	-7,599	-14,490	-22,406	-24,050	-24,083
(Inc)/Dec in Cash	-1,891	4,031	1,441	5,037	-5,928	-1,563	-3,619	-172
Opening balance	14,314	12,422	16,453	17,894	22,931	17,003	15,440	11,821
Closing balance	12,422	16,453	17,894	22,931	17,003	15,440	11,821	11,648

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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