

BSE SENSEX 36,858
 S&P CNX 11,132

CMP: INR910 TP: INR1,292 (+42%)
Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2018 for India Research, Sales and Trading team. We request your ballot.




Bloomberg	CESC IN
Equity Shares (m)	133
M.Cap.(INRb)/(USDb)	120.6 / 1.8
52-Week Range (INR)	1189 / 860
1, 6, 12 Rel. Per (%)	-9/-18/-13
12M Avg Val (INR M)	561
Free float (%)	50.1

Financials & Valuations (INR b)

Y/E Mar	FY18	FY19E	FY20E
Net Sales	161.6	165.1	174.1
EBITDA	34.5	37.3	38.8
PAT	10.0	12.8	14.0
EPS (INR)	75.5	96.2	105.4
Gr. (%)	45.5	27.4	9.6
BV/Sh (INR)	841.2	925.4	1,018.8
RoE (%)	9.2	10.9	10.8
RoCE (%)	7.9	8.3	8.4
P/E (x)	12.1	9.5	8.7
P/BV (x)	1.1	1.0	0.9

 Estimate change 

 TP change 

 Rating change 
Standalone performance impacted by absence of tariff hike
Spencer returns to growth, PLF at Dhariwal improves; Maintain Buy

CESC's standalone (S/A) 1QFY19 PAT grew 2.2% YoY to INR1.8b (in-line). Sales declined 0.5% YoY to 2.8BU. T&D losses were down 290bp YoY to 9.7%. It sold 91MU in the merchant market, as against 8MU in 1QFY18. Depreciation was flat QoQ, indicating capitalization was muted in the quarter.

Spencer – sales growth turns positive; adds three stores

- Sales growth turned positive after four quarters of decline. Sales grew 3% YoY, while same-store sales increased 1% YoY. It added three stores in the quarter, with store area increasing 2.5% QoQ to 1.21m sq.ft. Store EBITDA (at INR97/sq/m) and same-store EBITDA (at INR102/sq/m) were marginally higher-to-flat YoY.
- **Dhariwal** – PLF improved to ~80% from ~54% in 1QFY18, driven by the start of short-term PPA to Maharashtra. We estimate Dhariwal's EBITDA to increase by ~1.6b YoY to INR3.8b in FY18, primarily driven by the benefit of the PPA.

Demerger to unlock value; Maintain Buy

The tariff order for the Kolkata circle for FY18 was approved with a delay (in July 2018), but there was no tariff hike. The regulator has disallowed certain cost (like income tax, employee cost), which is driving under-recoveries. A significant portion of the disallowed costs is linked to actuals, and thus, will be recovered at time of true-up. The tariff order for FY19 is unlikely to be approved before 3QFY18, until which S/A profit growth would remain muted. Dhariwal operations are expected to improve on supply under short-term PPAs. Spencer operations remain EBITDA positive. The demerger is pending the approval of the West Bengal Electricity Regulator. We believe the demerger would unlock value in distribution and retail operations. We value the stock on SOTP. Our TP is revised down to INR1,292 after factoring in lower regulatory equity addition in FY18. Maintain **Buy**.

Quarterly Performance (Standalone)

Y/E March	FY18				FY19				FY18	FY19E	FY19 1QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Sales	21,840	20,880	17,060	17,950	21,590	19,632	16,432	17,451	77,730	74,606	18,524	17
Change (%)	8.5	3.6	5.3	14.2	-1.1	-6.0	-3.7	-2.8	7.7	-4.0	-15.2	
EBITDA	6,070	5,050	3,140	2,650	4,950	5,228	3,876	5,282	16,530	18,837	4,184	18
Change (%)	18.8	-14.6	-0.3	29.9	-18.5	3.5	23.5	99.3	2.0	14.0	-31.1	
As of % Sales	27.8	24.2	18.4	14.8	22.9	26.6	23.6	30.3	21.3	25.2	22.6	
Depreciation	1,050	1,080	1,090	1,110	1,110	1,095	1,105	1,080	4,330	4,391	1,065	4
Interest	1,210	1,260	1,210	1,160	1,200	1,228	1,179	1,110	4,840	4,717	1,179	2
Other Income	400	350	430	480	200	317	389	597	1,660	1,503	362	-45
Regulatory (inc)/exp	1,940	-90	-700	-2,860	500	0	0	0	-2,090	0	0	
PBT	2,270	3,150	1,970	3,720	2,340	3,222	1,981	3,689	11,110	11,232	2,302	2
Tax	490	680	430	800	520	709	436	806	2,400	2,471	507	
Effective Tax Rate (%)	21.6	21.6	21.8	21.5	22.2	22.0	22.0	21.9	21.6	22.0	22.0	
Reported PAT	1,780	2,470	1,540	2,920	1,820	2,513	1,545	2,882	8,710	8,761	1,796	1
Adjusted PAT	1,780	2,470	1,540	2,920	1,820	2,513	1,545	2,882	8,710	8,761	1,796	1
Change (%)	2.3	2.1	1.3	-1.0	2.2	1.7	0.3	-1.3	0.9	0.6	0.9	

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Exhibit 1: Standalone – operating metrics

		1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Units sold	MU	2,782	2,654	2,090	1,994	2,853	2,759	2,345	2,393	2,840
Change YoY	%	8.6	3.4	-6.7	-4.9	2.6	4.0	12.2	20.0	-0.5
Realization	INR/kWh	7.1	7.4	7.5	7.9	7.7	7.6	7.3	7.5	7.6
T&D loss	%	12.1	11.8	11.8	7.9	11.1	10.8	10.8	5.5	9.7
Gross generation	MU	1,912	1,716	1,170	1,215	1,736	1,738	1,357	1,506	1,709
Change YoY	%	-7.8	-13.2	-26.8	-9.3	-9.2	1.3	16.0	24.0	-1.6
Generation fuel cost	INR/kWh	2.3	2.1	2.2	2.4	2.2	2.2	2.3	2.2	2.3
Power purchase	MU	1,409	1,398	1,290	1,049	1,605	1,509	1,322	1,202	1,608
Power purchase cost	INR/kWh	4.9	5.0	5.1	5.5	4.8	5.1	5.5	5.3	5.2

Source: MOSL, Company

Exhibit 2: Spencer – operating metrics

		1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Store count	x	118	119	124	124	124	124	125	127	130
Hyper	x	36	37	39	39	38	38	38	38	39
Super	x	13	14	17	17	18	19	20	20	21
Daily (small format)	x	69	68	68	68	68	67	67	69	70
Store area	k.sq.f	1,086	1,112	1,189	1,176	1,185	1,186	1,181	1,183	1,212
Hyper	k.sq.f	839	856	908	895	891	880	871	870	889
Super	k.sq.f	92	102	129	129	142	156	160	160	166
Daily (small format)	k.sq.f	155	154	152	152	152	150	150	153	157
Sales - avg	INR/sq.f.m	1,578	1,588	1,714	1,612	1,530	1,507	1,607	1,464	1,575
Sales - like-for-like	INR/sq.f.m	1,584	1,682	1,790	1,549	1,615	1,588	1,697	1,512	1,629
Store EBITDA	INR/sq.f.m	97	108	121	90	94				97

Source: MOSL, Company

Exhibit 3: Target price derivation

	Stake %	Reg. Equity INR m	RoE %	CoE %	Gr %	P/BV x	Equity value INR m	Norm. Debt INR m	EV INR m
a. Distribution		32,872							118,868
Kolkata	100.0	30,359	19.4	10.8	5.0	2.5	76,030	28,000	104,030
Noida	49.6	2,513	25.0	10.8	7.0	4.8	12,060		12,060
Franchisee									@ 7x FY20E EBITDA 2,778
b. Generation		32,493							109,274
Kolkata	100.0	12,602	19.4	11.9	0.0	1.6	20,466	372	20,838
Haldia	100.0	11,305	22.0	11.9	0.0	1.8	20,819	22,681	43,500
Dhariwal reg. (300MW)	100.0	5,823	19.0	11.9	0.0	1.6	9,261	9,730	18,991
Dhariwal merchant									300MW @ INR 50m/MW 15,000
Crescent Power	67.8	2,763	15.3	11.9		1.3	3,545	-538	3,007
RE									@ 7x FY20E EBITDA 7,938
c. Spencer							25,637		25,637
d. Others									25,110
Firstsource	55.5						19,554	0	@ 9x FY20E attri. PAT 19,554
Mall									@ 9x FY20E EV/EBITDA 5,557
Consolidated value (a+b+c+d)									278,890
Less: Debt									106,805
Market value									172,085
No. of shares									133
Target price									1,292

Source: MOSL, Company

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	75,567	101,109	110,666	121,242	139,035	161,610	165,133	174,081
Change (%)	28.3	33.8	9.5	9.6	14.7	16.2	2.2	5.4
EBITDA	12,661	16,226	18,945	29,792	31,574	34,480	37,286	38,800
EBITDA Margin (%)	16.8	16.0	17.1	24.6	22.7	21.3	22.6	22.3
Depreciation	3,645	4,714	5,889	7,665	8,164	8,740	8,859	9,155
EBIT	9,016	11,512	13,056	22,128	23,410	25,740	28,428	29,645
Interest	4,304	5,660	9,565	14,943	14,972	13,740	12,987	12,630
Other Income	1,437	1,734	1,490	2,637	2,987	2,800	2,179	2,244
Extraordinary items	418	0	0	-40	-5	0	0	0
PBT	6,567	7,585	4,981	9,781	11,421	14,800	17,619	19,259
Tax	1,758	1,856	1,992	3,130	3,810	3,740	3,814	4,125
Tax Rate (%)	26.8	24.5	40.0	32.0	33.4	25.3	21.6	21.4
Min. Int. & Assoc. Share	215	813	1,004	666	706	1,020	1,012	1,116
Reported PAT	4,594	4,916	1,985	5,985	6,905	10,040	12,792	14,019
Adjusted PAT	4,176	4,916	1,985	6,024	6,909	10,040	12,792	14,019
Change (%)	53.8	17.7	-59.6	203.5	14.7	45.3	27.4	9.6

Balance Sheet							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	1,256	1,256	1,332	1,332	1,332	1,330	1,330	1,330
Reserves	50,180	55,094	58,958	104,705	104,895	110,550	121,746	134,169
Net Worth	51,436	56,350	60,290	106,037	106,227	111,880	123,076	135,499
Debt	96,608	119,164	142,020	148,676	156,266	153,822	148,546	144,379
Consumer Security Deposits	0	0	0	0	0	0	0	0
Deferred Tax	285	332	832	38,307	38,873	37,340	37,340	37,340
Total Capital Employed	155,753	184,925	213,146	303,939	313,466	317,502	324,965	334,931
Net Fixed Assets	86,189	119,719	186,270	243,065	246,156	270,900	273,250	274,953
Investments	976	737	735	3,537	4,224	6,880	7,411	8,005
Current Assets	51,937	50,798	65,858	93,781	104,646	105,120	113,590	122,996
Inventory	4,342	5,383	6,625	6,967	8,454	8,670	8,596	9,056
Debtors	16,201	15,302	17,066	14,132	15,596	19,580	20,105	20,976
Cash & Bank	14,314	12,422	16,453	17,894	22,931	21,480	29,499	37,574
Loans & Adv, Others	17,081	17,692	25,714	54,788	57,665	55,390	55,390	55,390
Curr Liabs & Provns	57,383	64,838	66,235	63,993	65,585	67,598	71,486	73,224
Curr. Liabilities	57,383	64,838	66,235	63,993	65,585	67,598	71,486	73,224
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	-5,446	-14,040	-377	29,789	39,061	37,522	42,104	49,772
Total Assets	155,753	184,925	213,146	303,939	313,466	317,502	324,965	334,931

Financials and Valuations

Ratios

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	33.2	39.1	14.9	45.2	51.9	75.5	96.2	105.4
Cash EPS	62.3	76.7	59.1	102.8	113.1	141.2	162.8	174.2
Book Value	409.5	448.6	452.6	796.0	797.4	841.2	925.4	1018.8
DPS	7.0	8.0	9.0	10.0	10.0	10.0	10.0	10.0
Payout (incl. Div. Tax.)	21.1	20.4	60.4	22.1	19.3	13.2	10.4	9.5
Valuation(x)								
P/E	8.0	12.8	40.4	10.5	17.6	12.1	9.5	8.7
Cash P/E	4.3	6.5	10.2	4.6	8.1	6.5	5.6	5.2
Price / Book Value	0.6	1.1	1.3	0.6	1.1	1.1	1.0	0.9
EV/Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	9.7	11.0	11.4	6.9	8.5	7.8	6.9	6.3
Dividend Yield (%)	2.6	1.6	1.5	2.1	1.1	1.1	1.1	1.1
Profitability Ratios (%)								
RoE	8.4	9.1	3.4	7.2	6.5	9.2	10.9	10.8
RoCE	6.8	6.7	6.3	8.4	7.3	7.9	8.3	8.4
Turnover Ratios (%)								
Asset Turnover (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors (No. of Days)	78	55	56	43	41	44	44	44
Inventory (No. of Days)	21	19	22	21	22	20	19	19
Leverage Ratios (%)								
Net Debt/Equity (x)	1.4	1.6	1.8	1.1	1.1	1.0	0.9	0.7

Cash Flow Statement

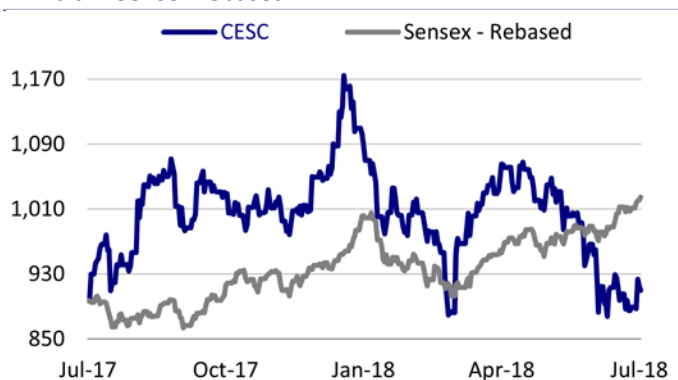
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
(INR Million)								
Adjusted EBITDA	12,661	16,226	18,945	29,792	31,574	34,480	37,286	38,800
Non cash opr. exp (inc)	1,968	1,125	2,729	4,128	4,387	-670	0	0
(Inc)/Dec in Wkg. Cap.	5,406	7,301	-10,274	-5,805	-5,868	-1,445	3,437	407
Tax Paid	-1,479	-2,141	-2,506	-3,311	-3,618	-3,740	-3,814	-4,125
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	18,556	22,511	8,895	24,804	26,475	28,625	36,909	35,083
(Inc)/Dec in FA & CWIP	-36,148	-34,209	-19,509	-12,675	-14,720	-11,659	-11,209	-10,858
Free cash flows	-17,591	-11,698	-10,614	12,129	11,755	16,966	25,700	24,224
(Pur)/Sale of Invt	0	0	0	0	0	0	0	0
Others	-1,776	1,582	1,337	1,121	874	-637	2,179	2,244
CF from Inv. Activity	-37,924	-32,627	-18,172	-11,554	-13,846	-12,296	-9,030	-8,615
Inc/(Dec) in Net Worth	10	37	5,021	117	158	0	0	0
Inc / (Dec) in Debt	24,494	19,282	20,980	6,390	8,622	-2,444	-5,276	-4,167
Interest Paid	-5,465	-11,134	-11,978	-15,303	-15,036	-13,740	-12,987	-12,630
Divd Paid (incl Tax) & Others	359	40	-714	-3,014	-1,336	-1,596	-1,596	-1,596
CF from Fin. Activity	19,399	8,225	13,309	-11,809	-7,592	-17,780	-19,860	-18,393
Inc/(Dec) in Cash	31	-1,891	4,031	1,441	5,037	-1,451	8,019	8,075
Add: Opening Balance	14,283	14,314	12,422	16,453	17,894	22,931	21,480	29,499
Closing Balance	14,314	12,422	16,453	17,894	22,931	21,480	29,499	37,574

Corporate profile

Company description

CESC, an RPG-SG Group Company is one of the oldest integrated power utilities in India with presence in mining, generation, and distribution of power. Installed generation capacity stands at 1.2GW and distribution network encompasses 2.3m consumers in Kolkata and Howrah region. CESC has presence in retail business "Spencer" which has ~1.17msf area under operations.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18	Jun-17
Promoter	49.9	49.9	49.9
DII	25.6	25.1	40.9
FII	11.9	13.4	0.0
Others	12.6	11.6	9.2

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
HDFC TRUSTEE COMPANY LIMITED - HDFC EQUITY FUND	9.0
RELIANCE CAPITAL TRUSTEE COMPANY LIMITED A/C RELIANCE GROWTH FUND	2.0
BNK CAPITAL MARKERS LTD	1.9
LIFE INSURANCE CORPORATION OF INDIA	1.7
ICICI PRUDENTIAL EQUITY ARBITRAGE FUND	1.2

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Sanjiv Goenka	Chairman
Aniruddha Basu	Managing Director
Subhasis Mitra	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Brij Mohan Khaitan	Chandra Kumar Dhanuka
K Jairaj	Pradip Kumar Khaitan
Pratip Chaudhuri	Rekha Sethi

*Independent

Exhibit 6: Auditors

Name	Type
Lovelock & Lewes	Statutory
S M Gupta & Co	Secretarial Audit
S R Batliboi & Co LLP	Statutory
Shome & Banerjee	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	96.2	93.7	2.7
FY20	105.4	107.6	-2.0

Source: Bloomberg

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

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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