

BUY

Price	Rs233
Target Price	Rs406
Investment Period	12 months

Stock Info

Sector	Power
Market Cap (Rs cr)	2,915
Beta	0.8
52 WK High / Low	511 / 165
Avg. Daily Volume	56528
Face Value (Rs)	10

BSE Sensex	11,403
Nifty	3,474

BSE Code	500084
NSE Code	CESC
Reuters Code	CESC.BO
Bloomberg Code	CESC@IN

Shareholding Pattern (%)

Promoters	52.5
MF/Banks/Indian FIs	23.3
FII/ NRIs/ OCBs	19.3
Indian Public/others	4.9

Abs.	3m	1yr	3yr
Sensex (%)	23.5	(34.4)	(5.3)
CESC (%)	3.3	(50.9)	(28.3)

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Performance Highlights

- Top-line grew 15.5%:** CESC grew its Net Revenue by 15.5% to Rs754cr (Rs653cr) in 4QFY2009, which was above our expectation of 10% growth in Top-line. The company's FY2009 Top-line grew by 9% to Rs3,098cr. The company's PLF for FY2009 dipped by 70bp to 92.5% (93.2%). The company's total generation for FY2009 stood at 7,901MU, 77MU lower than FY2008's generation of 7,978MU.
- Operating Profit up 16.2%:** CESC clocked 16.2% increase in Operating Profit of Rs165cr (Rs142cr) during 4QFY2009, while Operating Margins moved up by 20bp to 21.9% (21.7%) during the quarter. Other Expenses, in particular, increased by 40.2% to Rs230cr (Rs164cr) on account of which the company's total Operating Expenses increased by 15.3% to Rs589cr (Rs511cr) yoy. Going ahead, we expect CESC to maintain its Margins at above 20% levels partially aided by price increase and incentives due to higher PLF. The company's Operating Profit for FY2009 grew 9.5% to Rs679cr (Rs620cr).
- Net Profit up 9.3%:** CESC clocked Net Profit of Rs94cr (Rs86cr) in 4QFY2009 registering a growth of 9.3% yoy. During the quarter, CESC received the WBERC Order wherein it would now charge Rs3.91/unit instead of Rs3.86/unit charged earlier. This hike in tariff lent a boost to the company's overall Profitability during the quarter. For FY2009, the company recorded Net Profit of Rs410cr (Rs355cr), up 15.5%.
- Capacity addition on track:** The company is targeting to expand its power generation capacity by 4,150MW by FY2013 from the current 975MW. Pertinently, for most of the projects, the expansion is on track. CESC has acquired 75% the land as well as the coal linkage for the 600MW Haldia project. Various other clearances relating to water consumption and erection of chimney have also been obtained.

Key Financials

Y/E March(Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	2,829	3,098	3,462	4,021
% chg	11.8	9.5	11.7	16.1
Adj. Net Profit	344.2	410.0	423.0	452.1
% chg	15.4	19.1	3.2	6.9
OPM (%)	20.3	21.9	22.0	23.1
EPS (Rs)	28.3	32.6	33.7	36.0
P/E (x)	8.2	7.1	6.9	6.5
P/BV (x)	1.0	0.9	0.8	0.7
RoE (%)	12.0	12.3	11.5	11.1
RoCE (%)	7.3	8.5	8.4	9.4
EV/Sales (x)	1.4	1.3	1.2	1.3
EV/EBITDA (x)	6.9	5.8	5.7	5.4

Source: Company, Angel Research; Price as on April 29, 2009

Operational highlights

CESC's total power generation during FY2009 stood at 7,901MU (7,978MU), a yoy decline of 1%. Overall PLF during FY2009 stood at 92.5% (93.2%), a yoy decline of 70bp. The power purchased by the company during the year increased by 13.7% to 1,404MU (1,235MU). The company also further reduced its T&D losses during the year to 13.4% (13.8%) indicating better operational efficiency.

Exhibit 1: Plant-wise PLF					
PLF%	FY2008	FY2009	Generation MU	FY2008	FY2009
Budge Budge	100.4	100.5	Budge Budge	4,409	4,403
Titagarh	92.1	92	Titagarh	1,942	1,933
Southern	95	94.6	Southern	1,127	1,119

Source: Company

Key Developments

- Progress on the 250MW third unit at Budge Budge has been satisfactory and loan disbursement for the project is continuing.
- During FY2009, CESC received the FY2009 Tariff Order from the West Bengal Electricity Regulatory Commission (WBERC). The Commission fixed the average tariff at Rs3.91/unit replacing the earlier tariff of Rs3.86/unit with effect from April 1, 2008.
- CESC has been jointly allocated a coal block of 110MT in Jharkhand for setting up a 1,000MW merchant power plant. The company is also exploring opportunities both in and outside West Bengal for setting up merchant power plants.
- The company's property subsidiary, CESC Properties, is discussions to award EPC contracts for developing a shopping mall. According to management, CESC Properties has also acquired properties at locations in and outside Kolkata for development.

Exhibit 2: Generation – Capacity Expansion from 975MW to 5,125MW – FY2013

Location	Purpose	Size MW	Cost (Rs cr)	Year of Commissioning	Remarks
Budge Budge (West Bengal)	Licence Area	250	1,200	2009-10	Under implementation; commissioning in Sep'09
Haldia Phase 1	Licence Area	600	2,600	2010-11	75% land acquired; Long-term linkage obtained, Evacuation & Railways feasibility study completed; NOC obtained for Water drawal.
Dumka, Jharkhand	Merchant	1,000	4,000	2011-12	110mt coal block allocated; MoU signed with Jharkhand Govt. Land acquisition process initiated.
Dhenkanal, Orissa	Merchant	1,000	4,000	2012-13	MoU signed; land acquisition process initiated; Coal allocation being pursued
Thermal/Hydel power plants in WB and other states	Merchant	1,300-1,500	6,000	2012-13	
Total		4,150-4,350	17,800		

Source: Company, Angel Research

Outlook and Valuation

Power Business

India's Power deficit during April-March 2009 stood at 11% while the peak load deficit was 13.8%. Despite the current economic slowdown, the Power Sector seems to be poised for tremendous growth considering that the country's annual energy demand is set to almost triple in the next decade. This tremendous increase in demand entails substantial increase in the country's power generation capacity from the current installed capacity of 1,47,965MW. On the back of the same, CESC's huge expansion plans are expected to propel its Power business going ahead. Moreover, the Central Electricity Regulatory Commission's (CERC) new Tariff regulation applicable for FY2009-2014 has increased the cap on the Return on Equity (RoE) of central power utilities from the existing 14% to 15.5%. CESC, which falls under the ambit of WBERC, does not stand to benefit directly, but will benefit if the respective SEBs also do the same. As the company has already received the multi-year tariff, we believe it would be difficult to amend the same.

Retail Business

The company is present in the Retail space, through its subsidiary. It holds 94% stake in Spencer's Retail, which is a low-Margin business model with 70% of its Revenue coming from the low-Margin Food & Grocery (F&G) Segment. However, in view of the prevailing capital market conditions, high Debt-to-Equity ratio of 2.4x in FY2008, slowdown due to concerns on the demand side and cash loss of Rs20cr/month, Spencer's is going slow on its capacity expansion plans.

CESC had chalked out huge expansion plans for its Retail business and had planned to increase its tradable area at a brisk pace. As of FY2008, the company had around 400 outlets across India with retail space of 14.27lakh sq ft. It had planned to increase the number of stores to 1,000 by FY2010, which in the current macro environment seems challenging. Spencer's Retail is expected to turn profitable over the next 12-18 months. As part of its turnaround strategy, the company is looking at shutting down unviable stores. Till-date it has shut 40 unviable stores, and plans to close 16 more stores over the next few months. In line with this, situation we have also pruned our expansion targets for the company's Retail Division thereby reducing our Top-line estimate for the Division to Rs1,245cr from the earlier Rs1,796cr.

We have valued Spencer's Retail using the Market cap to Sales method, after considering the Market cap/sales of peers like Pantaloon Retail, Shopper's Stop and Trent. On a one-year forward Market cap/Sales basis, the peers are trading broadly in the range of 0.3-0.5x. Due to the low-Margin business model and cash losses till 12-18 month, we have assigned Spencer's a Market cap/Sales ratio of 0.25x FY2010E Sales (earlier 0.5x FY2010E Sales), which is at a 20% discount to the average of peers. Total value of the Retail business works out to Rs23/share for CESC. Factoring in the same, our Target Price stands reduced to Rs406/share (Rs449/share).

Real Estate

The company's 100% Real Estate subsidiary, CESC Properties, is required to share one-third of its gains from its Real Estate business with its utility consumers as mandated by the Regulator. Thus, the company's mall project is structured in a way such that CESC Properties earns Income from the project and pays CESC Rental for its land. Thus, out of the Rental received by CESC, one-third would be passed by it to its utility customers. We have valued the company's mall at Central Kolkata and the land at Mulajore (35 acres) on NPV basis and have arrived at Rs17/share for CESC's Real Estate business.

We expect CESC to record a CAGR of 10.6% in Top-line over FY2009-11, while Bottom-line would post CAGR of 10.5% in the mentioned period. At the CMP, the stock is trading at 6.9x FY2010E EPS and 0.8x FY2010E P/BV. We have also assigned a lower FY2010E P/BV multiple to the company's existing Power business at 1.25x owing to the drop in relative valuations. Hence, we have arrived at a sum-of-the-part (SOTP) Target Price of Rs406 (earlier Rs449). Nonetheless, considering that the company is inexpensive on FY2010E P/BV basis, **we maintain a Buy on the stock.**

Exhibit 3: SOTP Valuation

Business Portfolio	Methodology	Old Value/Share (Rs)	New Value/Share (Rs)
Existing Power plant	1.25 * FY2010E BV	365	365
Retail- Spencer's (94% stake)	0.25 * FY2010E Sales	67	23
Real Estate	NAV	17	17
Total		449	406

Source: Angel Research

Exhibit 4: 4QFY2009 Performance

Y/E March (Rs cr)	4QFY2009	4QFY2008	% chg	FY2009	FY2008	% chg
Net Sales	754.0	653.0	15.5	3,098.0	2,843.0	9.0
Consumption of RM	286.0	264.0	8.3	1,356.0	1,244.0	9.0
(% of Sales)	37.9	40.4		43.8	43.8	
Staff Costs	73.0	83.0	(12.0)	328.0	304.0	7.9
(% of Sales)	9.7	12.7		10.6	10.7	
Other Expenses	230.0	164.0	40.2	735.0	675.0	8.9
(% of Sales)	30.5	25.1		23.7	23.7	
Total Expenditure	589.0	511.0	15.3	2,419.0	2,223.0	8.8
Operating Profit	165.0	142.0	16.2	679.0	620.0	9.5
OPM (%)	21.9	21.7		21.9	21.8	
Interest	37.0	31.0	19.4	140.0	136.0	2.9
Depreciation	42.0	40.0	5.0	170.0	168.0	1.2
Other Income	21.0	26.0	(19.2)	96.0	61.0	57.4
PBT (excl. Extr. Items)	107.0	97.0	10.3	465.0	377.0	23.3
Extr. Income/(Expense)	-	-		-	26.0	
PBT (incl. Extr. Items)	107.0	97.0	10.3	465.0	403.0	15.4
(% of Sales)	14.2	14.9		15.0	14.2	
Provision for Taxation	13.0	11.0	18.2	55.0	48.0	14.6
(% of PBT)	12.1	11.3		11.8	11.9	
Reported PAT	94.0	86.0	9.3	410.0	355.0	15.5
PATM (%)	12.5	13.2		13.2	12.5	
Equity shares (cr)	126.0	126.0		126.0	126.0	
EPS (Rs)	7.5	6.8		32.5	26.1	
Adj PAT	94.0	86.0	9.3	410.0	329.0	24.6

Source: Company, Angel Research



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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)