



CESC: Stepping on the growth accelerator

Exploring funding options

Power business: targets commissioning of 2.5GW capacity by FY15/FY16, to enhance distribution portfolio

- CESC has embarked on a two-pronged strategy for its power vertical: (1) increase generation capacity from 1.2GW to 3.7GW by FY15/FY16, and (2) enter into new distribution circles (recently emerged as lowest bidder for Patna circle). The company intends to transform from a regional player to a national player.
- 2.5GW of generation projects are at advanced stages of development / have entered the construction phase, with all initial clearances (water, environment, etc) and land acquisition largely in place. These comprise of 600MW project each at Haldia and Chandrapur and 1.3GW project in Orissa.

Retail business: focus on "profitable growth"

- The management highlighted its strategy to attain "profitable growth", with gradual expansion in total area under operations from 0.85msf to 2.5msf over the next three years. In the interim period, 0.22msf of retail space is being added and incremental pipeline stands at 0.3msf. Store level EBITDA stands at Rs20/sf and the target is to increase this to Rs50/sf over the next 12-14 months.
- Same stores revenue growth was 17% in December 2010 and 14% for YTD FY11 [combination of 7% volume growth and 7% inflation]. In terms of geographic expansion, the management prefers going deeper to going wider and is focusing on 8-9 key markets.

Exploring funding options; continued investments into Spencer to fund losses

- Total funding requirement for power and retail business is expected to be ~Rs40b over the next four years. This comprises of Rs30b+ equity funding requirement (including Rs5b already invested) for 2.5GW of generation capacity addition, Rs3b-5b towards funding of Spencer's losses (FY11E at Rs1.1b-1.3b) and capex funding (~Rs0.6b per year), plus funding requirements towards distribution business.
- The management indicated that the company is working on fund raising options both for the power and retail business. CESC had cash and cash equivalents of Rs13.7b as at FY10, and core profit is estimated at Rs4b in FY11.

Valuations reasonable; maintain Buy: Our SOTP-based target price is Rs568, comprising of existing power business at Rs346/share (10x FY12E EPS), investment in Spencer Retail at Rs39/share (Rs5b and FY10 EV/Sales of 1x), investment in Haldia and Chandrapur projects at Rs57/share (Rs7b), and cash at Rs110/share (Rs13.7b). **Buy.**

CESC: Financial and valuation summary

Equity Shares (m)	125.6	Year	Net Sales	PAT*	EPS*	EPS*	P/E*	P/BV	RoE	RoCE	EV/	EV/
52-Week Range (Rs)	452/330	End	(Rs m)	(Rs m)	(Rs)	Gr. (%)	(x)	(x)	(%)	(%)	Sales	EBITDA
1,6,12 Rel. Perf. (%)	-5/-24/-32	03/10A	32,928	4,333	34.5	17.7	9.7	1.4	13.8	10.8	1.8	7.9
M.Cap. (Rs b)	42.0	03/11E	39,427	4,645	37.0	7.2	9.0	1.2	13.0	12.6	1.4	5.4
M.Cap. (US\$ b)	0.9	03/12E	41,335	4,875	38.8	4.9	8.6	1.1	12.2	11.8	1.4	5.8
		03/13E	44,923	4,968	39.6	1.9	8.4	1.0	11.2	11.2	1.3	5.9

* Excl Spencers; fully diluted



Mr Sumantra Banerjee,
Managing Director, CESC & President/
Chief Executive, Retail Group

Mr Sumantra Banerjee is the President and Chief Executive of RPG Enterprises' power business. He serves as Member of Management Board of RPG Enterprises. He has been Managing Director of CESC since 1 August 1993.

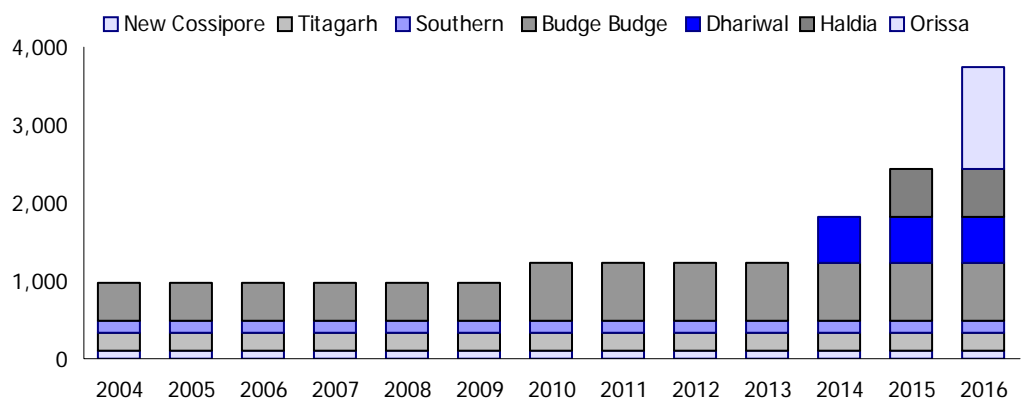
He has over 32 years of experience in India and abroad in manufacturing, engineering, finance, marketing and general management functions. In India, he has been in various companies of the RPG Group since 1984 at senior management level.

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- 2.5GW of generation projects are at advanced stages of development / have entered the construction phase, with all initial clearances (water, environment, etc) and land acquisition largely in place. These comprise of 600MW project each at Haldia and Chandrapur and 1.3GW project in Orissa.
- In addition, project pipeline stands at 3.3GW, comprising of (1) 1GW in Jharkhand, with captive coal mine; land acquisition has just commenced, (2) 1GW in Bihar, where land acquisition has just commenced, and (3) 1.3GW expansion in Haldia is in initial stages with TOR approved recently.
- Fuel linkages are available for Haldia and Chandrapur, while Orissa project has score of 90 out of 100, as appraised by CEA and thus has higher chances for getting linkages in next meeting of standing linkages committee (SLC) for 12th plan. Additionally, CESC has invested 10% in Resources Gen, which is developing mines in South Africa and potentially provides access to 2mtpa of coal. Phase-1 mine development is expected to be completed by 2013, with production of 6mtpa.
- Equipment order for Chandrapur project has been already placed, while BTG award for Halida project is likely soon, post approval from West Bengal Electricity Regulatory Commission (WBERC) for the project cost, as 450MW is to be sold to the existing distribution business. In terms of project commissioning, Chandrapur project unit-1 is expected by August 2013, Haldia Unit-1 in 2014 and Orissa in 2015.
- CESC has emerged as the preferred bidder for Patna distribution circle, pending award by the state government. Management expects equity IRR of 18-20%. CESC is also actively looking at other distribution circles, which are being privatized.

Capacity addition plans: 2.5GW under development / construction phase; to be commissioned till FY16

CESC's capacity will increase to 3.7GW based on projects under construction and to 5.7GW based on the development pipeline



Source: Company

Projects under development / construction: To be commissioned till FY16

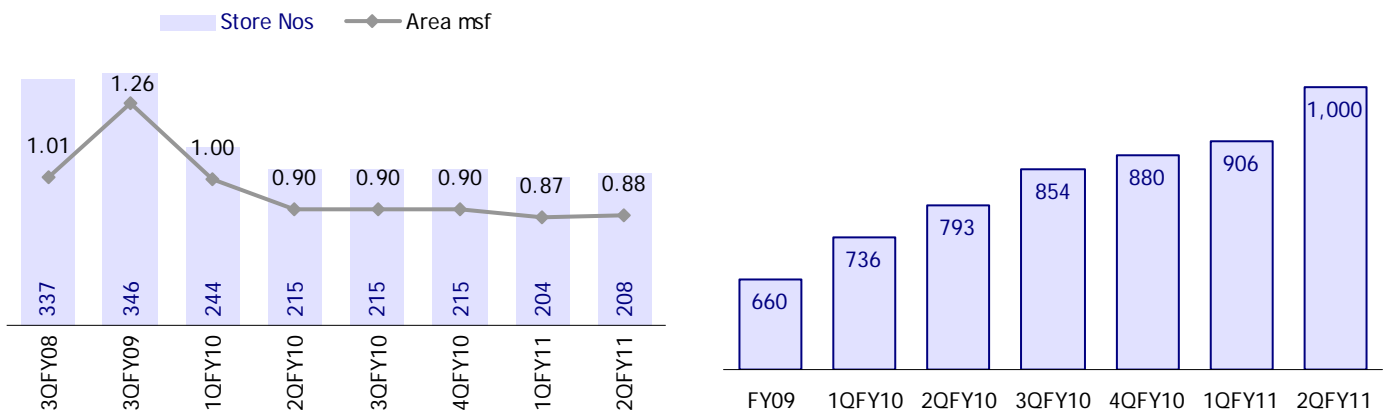
Plant	Remarks
Chandrapur	FC achieved (DER 75:25), linkages received from SECL. Coal linkage received from South Eastern Coal Fields. Land has been acquired (455 acres), Environment clearance received, etc. EPC contract for the project is awarded in 2 packages: Balance of Plant (BoP) to Punj Lloyd and BTG sets to Sanghai Electric, China. 300MW on merchant, 300MW on CERC tariffs.
Haldia	Entire 345 acres required for the project is acquired. Financial closure achieved Fuel requirement through linkages (granted from MCL), additional cushion from import (Possible through acquisition of stake in Resource Gen) Will sign PPA agreement with CESC for supply of 450MW on PPA basis CESC has invited BTG equipment tender and expects to award projects by Sept-10
Dhenkanal, Orissa	Large part of the land has also been acquired [678 acres of the 1094 acres required] As per prioritization for coal linkages, the project has secured 90 marks out of 100 Terms of Reference for the project have been approved and the Environmental Impact Assessment studies have been completed

Source: Company

Retail business: focus on "profitable growth"

- The management highlighted its strategy to attain "profitable growth", with gradual expansion in total area under operations from 0.85msf to 2.5msf over the next three years. In the interim period, 0.22msf of retail space is being added and incremental pipeline stands at 0.3msf.
- Store level EBITDA stands at Rs20/sf and the target is to increase this to Rs50/sf over the next 12-14 months. This is being achieved through renegotiation of existing rentals, increased share of large format stores, with lower rentals and rentals linked to revenue/EBITDA sharing, operational efficiency (large format, pilferage/damage down from 10% to 2.5%) and change in revenue mix (higher share of private labels, high-end offerings to overall revenue, etc).
- Spencer Retail currently clocks revenue of Rs1,000/sf/month, Same stores revenue growth was 17% in December 2010 and 14% for YTD FY11 [combination of 7% volume growth and 7% inflation]. In terms of geographic expansion, the management prefers going deeper to going wider and is focusing on 8-9 key markets.

FY10 was a year of consolidation, with store closures, etc ...leading to improved sales - Sales (Rs/sq ft)

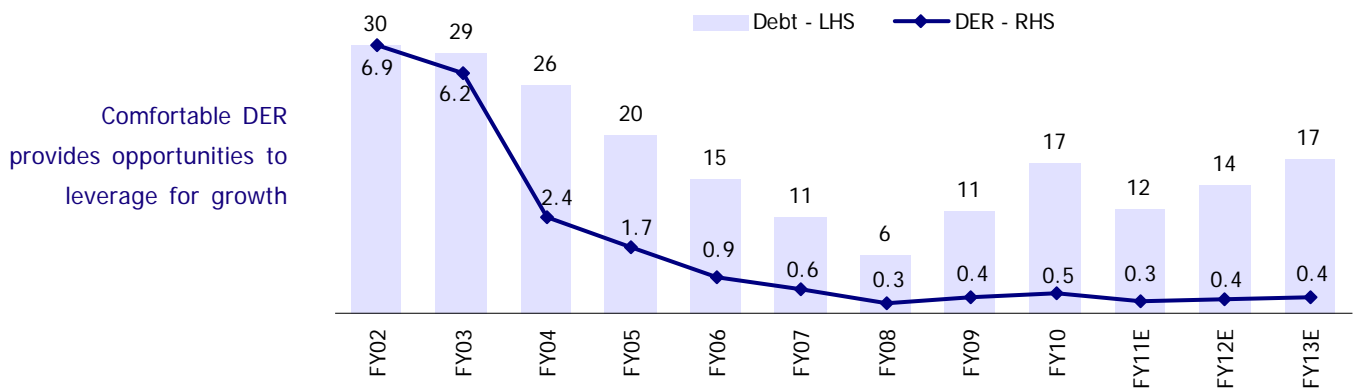


Source: Company

Exploring funding options; continued investments into Spencer to fund losses

- Total funding requirement for power and retail business is expected to be ~Rs40b over the next four years. This comprises of Rs30b+ equity funding requirement (including Rs5b already invested) for 2.5GW of generation capacity addition, Rs3b-5b towards funding of Spencer's losses (FY11E at Rs1.1b-1.3b) and capex funding (~Rs0.6b per year), plus funding requirements towards distribution business.
- The management indicated that the company is working on fund raising options both for the power and retail business. CESC plans to raise Rs10b through a PE transaction for HOLDCO (Haldia Energy) or project SPVs. Towards Spencer, it intends to cap incremental investments at Rs3b and meet additional needs through PE transaction. Options are also being explored for PE transaction in Beverly Hills Polo Club franchise (apparels), Au Bon Pain (Bakery), etc.
- CESC had cash and cash equivalents of Rs13.7b as at FY10, and core profit is estimated at Rs4b in FY11. Equity raising is imminent for progress in power projects and sustenance of retail business; however, given the comfortable financial scenario, the company has sufficient time.

DER is comfortable at 0.5x, FY10 (debt Rs b)



Source: Company

Valuations reasonable; maintain Buy

- We expect CESC to report standalone net profit of Rs4.1b in FY11 (up 7.2%), Rs4.3b in FY12 (up 4.9%) and Rs5b in FY13 (up 4.9%). The stock trades at 9x FY11E, 8.6x FY12E and 8.4x FY13E EPS, and 1.2x FY11E, 1.1x FY12E and 1x FY13E BV.
- Our SOTP-based target price is Rs568, comprising of existing power business at Rs346/share (10x FY12E EPS), investment in Spencer Retail at Rs39/share (Rs5b and FY10 EV/Sales of 1x), investment in Haldia and Chandrapur projects at Rs57/share (Rs7b), and cash at Rs110/share (Rs13.7b). We have additionally valued the real estate business (mall development) at Rs17/share (Rs2.2b). Spencers has been a drag over the past three years, with investments of Rs20b (including shares issued to promoters on acquisition) valued at Rs4.9b, currently. Possible upsides: (1) progress on 2.5GW projects under construction and development pipeline of 3.3GW, (2) reduction in cash losses / operational turnaround / PE investor for Spencers. Maintain **Buy**.

CESC: SOTP valuation

	Business Segment	Method	Valuation multiple	Value (Rs m)	Value (Rs/sh)	Rationale
Regulated Business	Power Generation & Distribution	FY12E PER (x)	10.0	43,435	346	At discount to industry average
Real Estate	Real Estate	NPV, Land bank valuation	-	2,174	17	NPV of Mall project and land bank valuation (other assets)
Spencer retail	Retail Chain	FY10 EV/Sales	1.0	4,872	39	At discount to industry average
Haldia Energy	Power Generation			7,125	57	Projects now at an advanced stage
- Chandrapur 600MW	DCF, COE of 13.5%			5,171	41	
- Haldia 600MW	DCF, COE of 15.0%			1,954	16	
Cash		FY10 Book Value		13,772	110	
Total				71,379	568	

Source: MOSL

CESC: Financials and Valuation

INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Total Revenues	30,313	32,928	39,427	41,335	44,923	
Cost of Energy purchased	4,125	6,370	4,532	4,888	6,375	
Cost of fuel	9,447	10,770	16,339	17,156	18,013	
Stores & spares	2,450	2,273	2,364	2,600	2,860	
Employee Expenses	3,702	4,260	4,431	4,874	5,361	
SG&A Expenses	4,464	1,759	1,900	2,090	2,299	
EBITDA	6,125	7,497	9,861	9,728	10,014	
<i>% of Total Revenues</i>	<i>20.2</i>	<i>22.8</i>	<i>25.0</i>	<i>23.5</i>	<i>22.3</i>	
Depreciation	1,749	2,056	2,766	2,920	3,090	
Interest	1,410	1,782	2,753	1,996	1,834	
Other Income	1,682	1,562	1,392	1,206	1,043	
Extra-ordinary Expenses	415	0	0	0	0	
PBT	4,649	5,221	5,735	6,018	6,133	
Tax	552	888	1,090	1,143	1,165	
<i>Rate (%)</i>	<i>11.9</i>	<i>17.0</i>	<i>19.0</i>	<i>19.0</i>	<i>19.0</i>	
Reported PAT	4,097	4,333	4,645	4,875	4,968	
Adjusted PAT	3,682	4,333	4,645	4,875	4,968	
<i>Change (%)</i>	<i>24.6</i>	<i>17.7</i>	<i>7.2</i>	<i>4.9</i>	<i>1.9</i>	
Dividend (Inc. tax)	585	494	530	556	566	
Distributable Profits	3,097	3,839	4,116	4,319	4,402	
<i>Change (%)</i>	<i>30.6</i>	<i>24.0</i>	<i>7.2</i>	<i>4.9</i>	<i>1.9</i>	

* Excl Spencers; fully diluted

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Share Capital	1,263	1,263	1,263	1,263	1,263	
Reserves	47,573	50,712	54,828	59,147	63,548	
Net Worth	48,836	51,975	56,090	60,409	64,811	
Loans	23,981	28,126	20,816	19,106	17,567	
Consumer's Security Dep.	8,212	8,965	9,592	10,264	10,982	
Capital Employed	81,028	89,065	86,499	89,779	93,360	
Gross Fixed Assets	94,289	113,640	119,056	124,470	130,431	
Less: Depreciation	38,261	41,311	44,077	46,997	50,088	
Net Fixed Assets	56,028	72,328	74,979	77,473	80,344	
Capital WIP	12,796	2,783	2,866	2,952	3,041	
Investments	3,104	6,785	5,433	10,533	16,558	
Curr. Assets	29,268	28,839	29,856	27,033	24,518	
Inventory	2,120	2,383	2,700	2,831	3,077	
Debtors	3,889	4,999	5,941	6,229	6,769	
Cash & Bank Balance	12,510	11,198	9,255	4,712	354	
Loans & Advances	10,327	10,105	11,805	13,106	14,163	
Deferred Payments	422	155	155	155	155	
Current Liab. & Prov.	20,253	21,756	26,714	28,282	31,163	
Other Liabilities	19,022	20,530	25,463	27,006	29,861	
Provisions	1,231	1,227	1,251	1,276	1,302	
Net Current Assets	9,015	7,083	3,142	-1,249	-6,645	
Misc Expenses	86	86	79	71	62	
Application of Funds	81,029	89,065	86,499	89,779	93,360	

E: MOSL Estimates

RATIOS		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Basic (Rs)						
EPS *	29.3	34.5	37.0	38.8	39.6	
CEPS (Rs)	46.5	50.9	59.0	62.1	64.2	
Book Value	215.8	240.8	273.6	308.1	343.2	
DPS	4.0	3.5	3.7	3.9	4.0	
Payout (incl. Div. Tax.)	12.2	10.0	10.0	10.0	10.0	
Valuation (x)						
P/E	11.4	9.7	9.0	8.6	8.4	
EV/EBITDA	8.7	7.9	5.4	5.8	5.9	
EV/Sales	1.8	1.8	1.4	1.4	1.3	
Price/Book Value	1.5	1.4	1.2	1.1	1.0	
Dividend Yield (%)	1.2	1.0	1.1	1.2	1.2	
Profitability Ratios (%)						
RoE	13.0	13.8	13.0	12.2	11.2	
RoCE	11.0	10.8	12.6	11.8	11.2	
Turnover Ratios						
Debtors (Days)	47	55	55	55	55	
Inventory (Days)	23	22	25	25	25	
Asset Turnover (x)	0.4	0.4	0.4	0.5	0.5	
Leverage Ratio						
Debt/Equity (x)	0.4	0.5	0.3	0.4	0.4	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
PBT before EO Items	4,649	5,221	5,735	6,018	6,133	
Add: Depreciation	1,749	2,056	2,766	2,920	3,090	
Interest	1,410	1,782	2,753	1,996	1,834	
Less: Direct Taxes Paid	552	888	1,090	1,143	1,165	
(Inc)/Dec in WC	-869	619	1,998	-151	1,038	
CF from Operations	6,387	8,791	12,162	9,640	10,929	
Extra-ordinary Items	415	0	0	0	0	
CF from Op. incl EOI	5,972	8,791	12,162	9,640	10,929	
(Inc)/dec in FA	-12,281	-8,343	-5,500	-5,500	-6,050	
(Pur)/Sale of Investments	2,593	-3,681	1,352	-5,100	-6,025	
CF from Investments	-9,689	-12,024	-4,148	-10,600	-12,075	
(Inc)/Dec in Networth	-126	-701	7	8	9	
(Inc)/Dec in Debt	7,693	4,145	-7,310	-1,710	-1,539	
(Inc)/Dec in Customer Secu	790	753	628	671	718	
Less: Interest Paid	1,410	1,782	2,753	1,996	1,834	
Dividend Paid	585	494	530	556	566	
CF from Fin. Activity	6,362	1,921	-9,958	-3,582	-3,212	
Inc/Dec of Cash	2,646	-1,312	-1,944	-4,543	-4,357	
Add: Beginning Balance	9,864	12,510	11,198	9,255	4,712	
Closing Balance	12,510	11,199	9,254	4,712	354	

* Fully Diluted



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